



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 2003

RESULTS

The directors of the Company (the “Directors”) are pleased to announce the audited consolidated results of Natural Beauty and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2003, together with the comparative figures for 2002, as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

		2003	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>restated HK\$'000</i>
Turnover	2	320,086	323,251
Cost of sales/services		<u>(61,192)</u>	<u>(86,776)</u>
		258,894	236,475
Other revenue	3	20,109	12,676
Other net (loss)/income	3	(583)	7,981
Distribution costs		(123,536)	(100,118)
Administrative expenses		(69,576)	(59,190)
Other operating expenses		<u>(1,777)</u>	<u>(3,250)</u>
Profit from operations		83,531	94,574
Finance costs	4(a)	<u>(6)</u>	<u>(477)</u>
Profit from ordinary activities before taxation	4	83,525	94,097
Income tax	5	<u>(30,084)</u>	<u>(27,174)</u>
Profit from ordinary activities after taxation		53,441	66,923
Minority interests		<u>701</u>	<u>1,335</u>
Profit attributable to shareholders		<u>54,142</u>	<u>68,258</u>

Dividends attributable to the year:	6		
Interim dividend declared during the year		12,000	15,000
Final dividend proposed after the balance sheet date		30,000	40,000
		<u>42,000</u>	<u>55,000</u>
Basic earnings per share	7	<u>HK\$0.027</u>	<u>HK\$0.036</u>

Notes:

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“SEHK”). A summary of the significant accounting policies adopted by the group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

Pursuant to a group reorganisation in connection with the listing of the company’s shares on SEHK, the company became the holding company of the other companies comprising the group on 11 March 2002. The company and its subsidiaries resulting from the reorganisation have been regarded as a continuing group. Accordingly, the reorganisation has been accounted for on the basis of merger accounting, under which consolidated financial statements have been prepared as if the company had been the holding company of the other companies comprising the group throughout the year ended 31 December 2002, or since their respective dates of the incorporation or establishment, whichever is later.

2. TURNOVER

The principal activities of the group are manufacturing and distribution of skin care, beauty and aroma therapeutic products, provision of skin treatments, beauty and SPA services, and beauty training.

Turnover represents the sales value of goods delivered to customers and service income from provision of skin treatments, beauty and SPA services and entrustment fee income. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
Sales of goods	296,583	269,804
Service income	18,719	51,468
Entrustment fee income	4,784	1,979
	<u>320,086</u>	<u>323,251</u>

3. OTHER REVENUE AND NET (LOSS)/INCOME

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Other revenue		
Rental income from investment properties	3,693	2,228
Rental income from other properties	980	667
Bank interest income	930	1,903
Financial refunds (<i>note</i>)	11,842	7,069
Others	2,664	809
	<u>20,109</u>	<u>12,676</u>
Other net (loss)/income		
Gain on disposal of assets held for resale	–	5,817
Loss on disposal of fixed assets	(1,752)	(158)
Net realised and unrealised gains on other securities carried at fair value	1,841	2,445
Net exchange loss	(672)	(123)
	<u>(583)</u>	<u>7,981</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 are entitled to financial refunds based on a 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.

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at charging:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
(a) Finance costs:		
Interest on bank overdrafts	<u>6</u>	<u>477</u>
(b) Staff costs* (excluding directors' remuneration):		
Contributions to defined contribution plans	4,478	4,208
Expenses recognised in respect of defined benefits plans	<u>1,138</u>	<u>1,102</u>
Retirement costs	5,616	5,310
Salaries, wages and other benefits	<u>46,426</u>	<u>43,274</u>
	<u>52,042</u>	<u>48,584</u>
(c) Other items:		
Cost of inventories sold*	31,451	31,907
Auditors' remuneration (audit services)	1,898	1,372
Depreciation*	23,084	20,590
Amortisation of goodwill	4,445	83
Amortisation of other intangible assets	2,477	1,098
Operating leases charges on land and buildings*		
– Minimum lease payments	15,664	17,283
– Contingent rentals	5,206	4,442
Rentals receivable from investment properties less direct outgoings of HK\$443,000 (2002: HK\$595,000)	3,250	1,633
Rentals receivable from other properties less direct outgoings of HK\$49,000 (2002: HK\$33,000)	931	634
Research and development costs	<u>157</u>	<u>592</u>

* *Cost of inventories sold includes HK\$9,844,000 (2002: HK\$8,205,000) relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.*

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2003 <i>HK\$'000</i>	2002 restated <i>HK\$'000</i>
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	----- -	----- -
Current tax – Outside Hong Kong		
Tax for the year	31,035	29,753
Over-provision in respect of prior years	(1,068)	(1,035)
	----- 29,967	----- 28,718
Deferred tax		
Origination and reversal of temporary differences	218	(1,544)
Effect of increase in tax rate on deferred tax balances at 1 January	(101)	-
	----- 117	----- (1,544)
	----- 30,084	----- 27,174

No Hong Kong Profits Tax has been provided, as the group did not earn any assessable profits in Hong Kong during the year ended 31 December 2003 (2002: HK\$Nil).

Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

For subsidiaries in Taiwan, income tax is also charged on the unappropriated profits at a rate of 10% (2002: 10%) in the year when the shareholders have resolved that the unappropriated profits shall be retained.

(b) **Reconciliation between tax expense and accounting profit at applicable tax rates**

	2003	2002
	<i>HK\$'000</i>	restated <i>HK\$'000</i>
Profit before tax	<u>83,525</u>	<u>94,097</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	26,434	21,246
Tax effect of non-deductible expenses	4,221	6,356
Tax effect of non-taxable revenue	(4,137)	(3,127)
Tax effect of unused tax losses not recognised	4,735	3,734
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	(101)	–
Over-provision in prior years	<u>(1,068)</u>	<u>(1,035)</u>
Actual tax expense	<u>30,084</u>	<u>27,174</u>

6. DIVIDENDS

(a) **Dividends attributable to the year**

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared and paid of HK\$0.006 per share (2002: HK\$0.0075 per share)	12,000	15,000
Final dividend proposed after the balance sheet date of HK\$0.015 per share (2002: HK\$0.02 per share)	<u>30,000</u>	<u>40,000</u>
	<u>42,000</u>	<u>55,000</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) **Dividends attributable to the previous financial year, approved and paid during the year**

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.02 per share (2002: HK\$0.01148 per share)	<u>40,000</u>	<u>22,960</u>

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the group's profit attributable to shareholders of HK\$54,142,000 (2002 restated: HK\$68,258,000) and the number of 2,000,000,000 ordinary shares (2002: proforma weighted average of 1,882,192,000 ordinary shares) in issue during the year.

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

8. SEGMENT REPORTING

Segment information is presented in respect of the group's geographical and business segments. Geographical segment information is chosen as the primary reporting format because this is more relevant to the group's internal financial reporting.

(i) Geographical segments

The group conducts the majority of its business activities in three geographical areas, the PRC, Taiwan and Hong Kong. Segment information is based on the area in which the customers are located. Segment assets and capital expenditure are further analysed by the geographical location of the assets. An analysis by geographical segment is as follows:

	2003				Total HK\$'000
	PRC HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Other region HK\$'000	
Revenue from external customers	200,618	118,084	141	1,243	320,086
Other revenue	14,224	5,419	396	70	20,109
Total revenue	<u>214,842</u>	<u>123,503</u>	<u>537</u>	<u>1,313</u>	<u>340,195</u>
Segment result	55,126	38,393	(3,285)	279	90,513
Unallocated operating income and expenses					<u>(6,982)</u>
Profit from operations					83,531
Finance costs					(6)
Income tax					(30,084)
Minority interests					<u>701</u>
Profit attributable to shareholders					<u>54,142</u>
Segment assets	416,304	347,663	14,857	1,177	780,001
Unallocated assets					<u>61,414</u>
Total assets					<u>841,415</u>

Segment liabilities	35,637	30,328	-	142	66,107
Unallocated liabilities					14,720
					<u>80,827</u>
Total liabilities					<u>80,827</u>
Capital expenditure	9,600	1,328	440	-	11,368
Depreciation and amortisation	21,268	7,463	1,275	-	30,006
	<u>21,268</u>	<u>7,463</u>	<u>1,275</u>	<u>-</u>	<u>30,006</u>

2002 (restated)

	PRC <i>HK\$'000</i>	Taiwan <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue from external customers	197,613	122,522	3,116	323,251
Other revenue	8,943	2,349	1,384	12,676
	<u>197,613</u>	<u>122,522</u>	<u>3,116</u>	<u>323,251</u>
Total revenue	206,556	124,871	4,500	335,927
	<u>206,556</u>	<u>124,871</u>	<u>4,500</u>	<u>335,927</u>
Segment result	61,877	50,303	(9,516)	102,664
Unallocated operating income and expenses				(8,090)
				<u>(8,090)</u>
Profit from operations				94,574
Finance costs	(428)	(49)	-	(477)
Income tax				(27,174)
Minority interests				1,335
				<u>1,335</u>
Profit attributable to shareholders				68,258
				<u>68,258</u>
Segment assets	413,180	364,657	13,599	791,436
Unallocated assets				79,734
				<u>79,734</u>
Total assets				871,170
				<u>871,170</u>
Segment liabilities	52,080	38,583	2,581	93,244
Unallocated liabilities				13,790
				<u>13,790</u>
Total liabilities				107,034
				<u>107,034</u>
Capital expenditure	21,160	4,319	6,717	32,196
Depreciation and amortisation	14,347	6,603	821	21,771
	<u>14,347</u>	<u>6,603</u>	<u>821</u>	<u>21,771</u>

(ii) **Business segments**

The group comprises the following main business segments:

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

	2003			
	Turnover	Other	Segment	Capital
	<i>HK\$'000</i>	<i>revenue</i>	<i>assets</i>	<i>expenditure</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cosmetic products and beauty services	320,086	16,416	634,328	11,368
Investment properties	–	3,693	145,673	–
	<u>320,086</u>	<u>20,109</u>	<u>780,001</u>	<u>11,368</u>
	2002 (restated)			
	Turnover	Other	Segment	Capital
	<i>HK\$'000</i>	<i>revenue</i>	<i>assets</i>	<i>expenditure</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cosmetic products and beauty services	323,251	10,448	650,956	32,196
Investment properties	–	2,228	140,480	–
	<u>323,251</u>	<u>12,676</u>	<u>791,436</u>	<u>32,196</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Total turnover of the Group for the year ended 31 December 2003 amounted to HK\$320,086,000 (2002: HK\$323,251,000), representing a slight decrease of approximately 1.0% when compared to 2002. The onset of the Severe Acute Respiratory Syndrome (“SARS”) in Asia, which lasted seven months from March to September, dealt a severe blow to the Group’s business, leading to a 27% drop in turnover in the first half of 2003 when compared with the corresponding period in 2002. As the impact of “SARS” eased in the fourth quarter, the economy gradually recovered, resulting in a relatively stable year-to-year performance in terms of product sales and service income in the Greater China region.

Profit attributable to shareholders decreased to HK\$54,142,000 (2002: HK\$68,258,000), representing a decrease of 20.7%. The decrease in profit was principally the result of the increase in the sales, marketing and administrative expenses. To make up the decrease in sales attributable to the outbreak of SARS, the Group progressively expanded its sales channel and increased the discount rate offered to its distributors. Since the containment of SARS, the Group put more resources in marketing to promote the sales of its products and the launch of new products, as a result of which, sales and administrative expenses increased. Subsequently, higher sales, marketing and administrative expenses amounted to HK\$193,112,000 was recorded during the period, representing 60.3% (2002: 49.3%) of the Group's turnover.

Geographically, the performance of both the PRC and Taiwan operations in the year 2003 was in line with our internal target. Turnover from the PRC business increased 1.5% to HK\$200,618,000, accounting for 62.7% of the total turnover of the Group. The increase was mainly attributable to the launch of several popular new products. Due to the increase in operating expenses as a result of the SARS outbreak in the region during the period, operating profits dropped 10.9% to HK\$55,126,000.

The Taiwan business contributed HK\$118,084,000 or 36.9% to the Group's total turnover, representing a 3.6% decrease. Operating profits dropped 23.7% to HK\$38,393,000. The decreases were attributed to the SARS outbreak in the region during the period.

The Group's operations in Hong Kong recorded a 95.5% drop in turnover amounted to HK\$141,000, accounting for 0.04% of the Group's total turnover and an operating loss of HK\$3,285,000. The decrease in turnover was the result of the change of operation mode to entrustment basis and the revenues and expenses of its outlets are not included by the Group.

Gross profit margin of the Group for the year ended 31 December 2003 increased to 80.9%, mainly due to the measures implemented by the Group to minimise the sales-related cost of sales. Operating profit margin dropped to 26.1% as a result of higher expenditure. Having been struck by "SARS", expansion of the Group's sales points slowed down last year and the construction of our third plant was also delayed, and capital expenditure decreased accordingly.

Last year, in order to improve operational efficiency, the Group committed to streamline its structure and implement cost containment measures, including negotiations with outlet landlords and our directors for rental reduction and voluntary remuneration cut by our directors. In December 2003, the Group implemented the Oracle system in Taiwan and the efficiency of accounting and sales point system was enhanced substantially. The system not only improved our efficiency in terms of manufacturing, inventory management and product delivery, but also enhanced the platform for accessing data of our business partners and individual clients, increasing the efficiency and effectiveness of our marketing strategy and activities. In view of the advantages, the Group will implement the system in the PRC soon.

The Board recommended the payment of final dividend of 1.5 cents for the year, making the full year dividend to 2.1 cents.

Products and Services

The Group is principally engaged in the manufacturing and sales of three types of products, namely skin care products, beauty products and aromatherapeutic products. The turnover generated from sale of products slightly increased to HK\$296,583,000 (2002: HK\$269,804,000), accounting for 92.7% of the Group's turnover. The Group successfully launched several new products during the onset of SARS, including several anti-germ aromatherapeutic products in Taiwan, Hong Kong and China. The Group further launched its high-end anti-aging NB-1 product series in November 2003. The product was well received. Over around 16,000 sets were sold within two months since its launch, making a significant contribution to the Group's turnover and earnings.

The Group also provides skin treatments, beauty and spa services through its self-owned and operated Class-A Natural Beauty SPA. As a result of less patronage to our spas during SARS and part of the self-owned outlets have been changed into entrustment basis, income from these services decreased to HK\$18,719,000, (2002: HK\$51,468,000) accounting for 5.8% of the Group's turnover for the year ended 31 December 2003. Service income is generated from self-owned and operated beauty centres and the Group does not share any service income generated from those franchised beauty centres under the current franchise programme. The Group expects the growing demand for skin treatment, beauty and spa services in the PRC will continue as the economy of the PRC continues to prosper.

Distribution Channels

For the year ended 31 December 2003, the Group has a total of approximately 2,300 beauty centres and product sales outlets in Taiwan, Hong Kong and China, including around 54 Class-A Natural Beauty SPA and 740 Class-B NB Salon SPA, 830 Class-C NB Beauty Salon, 520 Mini SPA and 160 dedicated sales counters. Of the total, around 230 stores are self-owned and operated by the Group. The Group will continue to expand its sales and distribution network in the Greater China region. It is expected that the number of sales outlets will be increased by in the range from 200 to 300, bringing the total number to over 2,600 by the end of 2004.

The Group has already set up dedicated sales counters at its existing sales outlets under the concept of "shop within shop", so as to boost product sales of the Group. Moreover, the Group has introduced the new distribution concept of "Mini SPA", with an aim to diversify its sales network to cater for the general public market. The Group has also worked with franchisees to transform Class-C NB Beauty Salon into Class-B NB Salon SPA with a view to improve corporate image and promote sales of products with higher profit margin. The Group believes that the transformation will enhance sales capability of franchised stores, which will in turn boost the Group's product sales. In the coming year, the Group will continue to re-position more Class-C NB beauty centres as either Class-B NB Salon SPA or Mini SPA.

The Group opened its NB SPA in Four Seasons Hotel in Shanghai to capture the local affluent customers with high spending power who are beauty conscious. The Group will solicit further collaboration with five-star hotels or other high-class venue providers to operate premium beauty and spa centres in order to strengthen its presence in the Greater China region.

Liquidity and financial management

Cash generated from operations for 2003 was approximately HK\$37,601,000 (2002: HK\$85,441,000). The drop was primarily due to substantial increase in trade receivables arising from sales through agents of television direct sales and year end credit sales. As at 31 December 2003, the Group had bank balances and cash of approximately HK\$170,265,000 and trading securities (which are mainly capital guaranteed bond funds) of approximately HK\$67,642,000 with no external bank borrowing. Details of the Group's charged assets are set out in note 13 of the Company's audited financial statements.

In terms of gearing, as at 31 December 2002 and 2003, 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 was approximately 6.0 times (2002: approximately 4.6 times). As at 31 December 2003, 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.

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 2003, approximately 71.6% of the Group's bank balances and cash was denominated in Renminbi, while approximately 2.5% was denominated in New Taiwan Dollar and the remaining 25.9% was denominated in United States Dollars and Hong Kong Dollars. 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.

Employment, training and development

As at 31 December 2003, the Group had a total of 1,308 employees, of which 1,127 were based in the PRC and aggregate of 181 in Taiwan and Hong Kong. Total remuneration for the year ended 31 December 2003 was approximately HK\$52,042,000, including retirement benefits cost of HK\$5,616,000. Competitive remuneration packages are maintained to attract, retain and motivate capable staff and are reviewed on a periodical basis.

The Group always 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.

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.

Future Plans and Prospects

Looking ahead, the year 2004 will be a year full of opportunities and challenges. The Group will continue to develop new products and to expand its market coverage and to strengthen the recognition of its brand name in the Greater China region with the PRC market as its core business focus.

With the global economy in recovery, export of Asian economies will improve and domestic spending tends to be stronger, together with the emerge of middle class, the Group expects there will be a continual growth in consumer spending and tourism with steady increase in the demand of skin care products. Amidst such background, the Group's business will be benefited. On the other hand, competition is expected to further intensify following the accession into the World Trade Organisation of China. The marco-economic adjustment policy recently adopted by the PRC Government is targeted at industries with substantial spending in fixed assets. The management believes that the policy will be of minimal impact to the Group. With high brand awareness, extensive sales and distribution networks, customer loyalty which built up through the years, we are very confident of maintaining our leading market position in the Greater China region.

We will continue with our multi-brand and multi-region development strategy with particular emphasis on the PRC market where most of the growth is expected in the near future. We have set a medium term target to increase our presence in the Greater China region by opening more beauty centres and dedicated counters in the next few years. The Group is now planning to encourage franchised stores to transform more Class-C NB beauty centres into either Class-B NB Salon SPA or Mini SPA. Such transformation is expected to be completed by the end of 2006.

In addition, we will continue to leverage on our research and development capability to diversify and increase our product range to better serve different segments of the market. Products to be launched in the coming year include our bio-tech based skin care products, body shaping underwear, body slimming nutritional products and skin care products for men.

Apart from organic growth, we will also explore co-operation or alliance opportunities with international players with a view to further strengthen our position in the region on the one hand and expand internationally on the other.

Through the relentless pursuit of excellence and support from our staff, franchisees as well as our customers, we are determined to become the leading researcher, manufacturer and distributor of quality skin care, beauty and aromatherapeutic products internationally.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK\$0.015 per share (2002: final dividend of HK\$0.015 and special dividend of HK\$0.005 per share). Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on around 16 July 2004 to shareholders whose names appear on the register of members of the Company as at the close of business on 21 June 2004.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company (the “Annual General Meeting”) will be held on 25 June 2004. For the details of the Annual General Meeting, please refer to the notice of Annual General Meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 June 2004 to 24 June 2004, 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 Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:00 p.m. on 21 June 2004.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Save as disclosed herein, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities during the year and up to the date of this document.

AUDIT COMMITTEE

The Company established an audit committee (the “Audit Committee”) on 11 March 2002 with written terms and with reference to guidance published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the financial statements for the year ended 31 December 2003. The Audit Committee comprised of all the independent non-executive Directors and has met six times in 2003. The Audit Committee has met to review the financial statements of the Group for the year ended 31 December 2003 prior to recommending them to the Board for approval.

CODE OF BEST PRACTICE

The Company is committed to maintain high corporate governance practices and has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

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

Hong Kong, 20 May 2004

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting (the "Meeting") of Natural Beauty Bio-Technology Limited (the "Company") will be held at Chater Room II, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on 25 June 2004 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements, directors' report and auditors' report of the Company for the year ended 31 December 2003.
2. To approve the final dividend for the year ended 31 December 2003.
3. To re-elect the retiring directors and to authorise the board of directors to fix the remuneration of the directors of the Company (the "Directors").
4. To re-appoint auditors and to authorise the board of directors of the Company (the "Board") to fix their remuneration.
5. As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as ordinary resolutions:

5A. "THAT:

- (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval granted in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined), or (ii) the exercise of any rights of subscription under the share option scheme of the Company approved by The Stock Exchange of Hong Kong Limited, or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution, and the said approval shall be limited accordingly; and
- (d) for the purposes of this resolution:

"Relevant Period" means the period from the date of passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the Company's Articles of Association to be held; or
- (iii) the date upon which the authority set out in this resolution is revoked or varied by way of ordinary resolution of the shareholders (the "Shareholders") of the Company in general meeting.

“Rights Issue” means an offer of shares in the capital of the Company open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange, in any territory outside Hong Kong).”

5B. “THAT:

- (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of HK\$0.10 each in the capital of the Company subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors on behalf of the Company during the Relevant Period (as hereinafter defined) to procure the Company to purchase its shares at a price determined by the Directors;
- (c) the aggregate nominal amount of the shares which are authorised to be purchased by the Directors of the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution, and the said authority shall be limited accordingly;
- (d) for the purposes of this resolution:

“Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the Company’s Articles of Association to be held; or
- (iii) the date upon which the authority set out in this resolution is revoked or varied by way of ordinary resolution of the Shareholders in general meeting.

5C. “THAT:

conditional upon the passing of the resolutions set out in paragraphs 5A and 5B of the notice convening this Meeting, the general mandate granted to the Directors of the Company pursuant to the resolution set out in paragraph 5A of the notice convening this Meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of share capital of the Company purchased by the Company under the authority granted pursuant to the resolution set out in paragraph 5B of the notice convening this Meeting, provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution.”

6. As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as a special resolution:

“THAT the Articles of Association of the Company be and are hereby amended in the following manner:

- (a) By deleting the definition of “recognised clearing house” in Article 2 in its entirety and replacing it with the following:

““recognised clearing house” shall have the meaning ascribed thereto in Schedule 1 to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);”

- (b) By adding a new Article 86A:

“Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.”

- (c) By deleting Article 108(c) in its entirety and replacing it with the following:

“A Director shall not be entitled to vote on (nor be counted in the quorum in relation thereto) any resolution of the Board in respect of any contract or arrangement or any other proposal whatsoever in which he or his Associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving of any security or indemnity either:
 - (aa) to the Director or his Associate(s) in respect of money lent or obligations incurred by him/them at the request of or for the benefit of the Company or any of its subsidiaries;
 - (bb) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his Associate(s) has/have himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (ii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his Associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iii) any proposal concerning any other company in which the Director or his Associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or his Associate(s) is/are beneficially interested in the shares of that company, provided that the Director and any of his Associates are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of his Associates is derived) or of the voting rights;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (aa) the adoption, modification or operation of any employees’ share scheme or any share incentive scheme or share option scheme under which the Director or his Associate(s) may benefit;
 - (bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their Associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his Associate(s) as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his Associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.”

- (d) By deleting Article 108(f) in its entirety and replacing it with the following:

“For the purpose of paragraph (c), “Associates” mean, in relation to any Director of the Company:

- (i) his spouse;
- (ii) any child or step-child, natural or adopted, under the age of 18 years of such individual or of his spouse (together with (i) above, the “family interests”);

- (iii) the trustees, acting in their capacity as such trustees, of any trust of which he or any of his family interests is a beneficiary or, in the case of a discretionary trust, is (to his knowledge) a discretionary object and any company (“trustee-controlled company”) in the equity capital of which the trustees, acting in their capacity as such trustees, are directly or indirectly interested so as to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in the HK Code on Takeovers & Mergers as being the level for triggering a mandatory general offer) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors and any other company which is its subsidiary (together, the “trustee interests”);
 - (iv) a holding company of a trustee-controlled company or a subsidiary of any such holding company; and
 - (v) any company in the equity capital of which he, his family interests, any of the trustees referred to in (iii) above, acting in their capacity as such trustees, and/or any trustee interests taken together are directly or indirectly interested so as to exercise or control the exercise of 30% (or such other lower amount as may from time to time be specified in the HK Code on Takeovers & Mergers as being the level for triggering a mandatory general offer) or more of the voting power at general meetings, or to control the composition of a majority of the board of directors and any other company which is its subsidiary or holding company or a fellow subsidiary of any such holding company.”
- (e) By deleting Article 121 in its entirety and replacing it with the following:

“No person other than a retiring Director shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless, during a period of at least 7 days which commences no earlier than the day after the despatch of the notice of the meeting appointed for such election and ends no later than 7 days prior to the date of such meeting, there has been given to the Secretary notice in writing by a member of the company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.”;

7. To transact any other business.

By order of the Board
Dr. Tsai Yen Yu
Chairman

Hong Kong, 20 May 2004

Notes:

1. The register of members of the Company will be closed from 23 June 2004 (Wednesday) to 24 June 2004 (Thursday), both days inclusive, during which period no transfer of shares in the Company can 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 branch share registrar, Hong Kong Registrars Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:00 p.m. on 21 June 2004 (Monday).
2. Any shareholder entitled to attend and vote at the Meeting is entitled to appoint one or more separate proxies to attend and, on a poll, to vote instead of him. A proxy need not be a shareholder of the Company.
3. To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company’s principal office in Hong Kong at 4th Floor, Manson House, 74-78 Nathan Road, Kowloon, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjourned Meeting.
4. With respect to the resolution set out in paragraph 5B of the notice, approval is being sought from Shareholders for a general mandate to be given to the Directors to purchase shares of the Company.
5. With respect to the resolutions set out in paragraphs 5A and 5C of the notice, approval is being sought from Shareholders for general mandates to be given to the Directors to allot, issue and deal with shares of the Company in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
6. An explanatory statement containing the information with respect to the resolutions set out in paragraphs 5A to 5C of the notice will be sent to the shareholders together with the 2003 annual report.

“Please also refer to the published version of this announcement in *The Standard*”.