NB® 自然美

NATURAL BEAUTY BIO-TECHNOLOGY LIMITED

自 然 美 生 物 科 技 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2003

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 2003 along with the comparative figures for the corresponding period in 2002 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2003

		For the six months ended 30 June	
		2003	2002
		(unaudited)	(unaudited)
	Note	***HK$'000***	*HK$'000*
Turnover	*3*	**103,390**	141,355
Cost of sales		**(20,163)**	(32,115)
Gross profit		**83,227**	109,240
Other revenues		**6,717**	1,391
Distribution costs		**(40,322)**	(46,164)
Administrative expenses		**(23,754)**	(26,475)
Other operating (expenses)/incomes		**(391)**	422
Operating profit		**25,477**	38,414
Finance costs		**–**	(696)
Income from trading securities		**271**	1,120
Profit before taxation	*4*	**25,748**	38,838
Taxation	*5*	**(2,196)**	(9,111)
Profit after taxation		**23,552**	29,727
Minority interests		**689**	(650)
Profit attributable to shareholders		**24,241**	29,077
Dividends	*6*	**12,000**	15,000

	Note		
Earnings per share	*7*		
– Basic		**0.012**	0.017
– Diluted		**Not applicable**	Not applicable

NOTES TO THE CONDENSED CONSOLIDATED INCOME STATEMENT

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The accompanying unaudited condensed consolidated interim consolidated 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 2002, except that the Group has adopted the SSAP 12 (revised), Income Taxes, which is effective for accounting periods commencing on or after 1 January 2003. The adoption of the SSAP 12 (revised) has had no material effect on the Group's condensed consolidated interim financial statements.

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 2002 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 three geographical areas, the PRC, Taiwan and Hong Kong. An analysis by geographical segment is as follows:

	For the six months ended 30 June 2003				For the six months ended 30 June 2002			
	PRC unaudited *HK$'000*	**Taiwan unaudited *HK$'000***	**Hong Kong unaudited *HK$'000***	**Total unaudited *HK$'000***	PRC unaudited *HK$'000*	Taiwan unaudited *HK$'000*	Hong Kong unaudited *HK$'000*	Total unaudited *HK$'000*
TURNOVER	**48,487**	**53,245**	**1,658**	**103,390**	88,709	51,980	666	141,355
SEGMENT RESULTS	**17,586**	**11,254**	**(368)**	**28,472**	32,120	11,320	(5,026)	38,414
Unallocated costs				**(2,995)**				–
Operating profit				**25,477**				38,414
Finance costs	**–**	**–**	**–**	**–**	(696)	–	–	(696)
Income from trading securities	**–**	**271**	**–**	**271**	–	1,120	–	1,120

Profit before taxation	**25,748**	38,838
Taxation	**(2,196)**	(9,111)
Profit after taxation	**23,552**	29,727
Minority interests	**689**	(650)
Profit attributable to shareholders	**24,241**	29,077

(b) Business segment

Other than the skin care, beauty and aromatherapeutic business segment, the Group held certain land and buildings for investment purposes. Details of this business segment are presented below:

	For the six months ended 30 June	
	2003	2002
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Revenue	**2,859**	859
Net profit	**2,305**	564

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	
	2003	2002
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Sales of goods	**92,450**	118,251
Service income	**10,940**	22,245
Others	**0**	859
	103,390	141,355

4. PROFIT BEFORE TAXATION

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

	For the six months ended 30 June	
	2003	2002
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Crediting:		
Interest income on bank deposits	**756**	902
Realized gain on disposal of short-term investments	**271**	1,120
Gain on disposals of property, plant and equipment	**–**	7
Charging:		
Loss on disposals of property, plant and equipment	**117**	–
Staff costs, excluding directors' emoluments		
– Salaries and wages	**16,451**	16,280
– Pension costs		
– PRC	**1,338**	1,129
– Taiwan	**665**	552
– Hong Kong	**9**	–
Directors' emoluments (salaries and allowances)	**350**	871
Depreciation of property, plant and equipment	**6,896**	8,174
Provision for write-down of inventory	**–**	192
Provision for doubtful debts	**–**	102
Interest expense on bank borrowings	**–**	696
Operating lease expense on land and buildings	**7,185**	9,248
Research and development costs	**721**	269
Amortization of other long-term assets	**206**	101

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 2003.

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	
	2003	2002
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Group:		
Overseas taxation	**6,112**	12,994
Deferred taxation	**326**	(112)
	6,438	12,882
Overseas financial refunds	**(4,242)**	(3,771)
Taxation for the period	**2,196**	9,111

6. DIVIDENDS

	For the six months ended 30 June	
	2003	2002
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
2002 Interim, paid, of HK$0.0075 per ordinary share	**–**	15,000
2003 Interim, proposed, of HK$0.006 per ordinary share	**12,000**	–
	12,000	15,000

The directors proposed an interim dividend of HK$0.006 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 2003.

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$24,241,000 for the six months ended 30 June 2003 (2002: HK$29,077,000) divided by weighted average number of approximately 2,000,000,000 ordinary shares (2002: 1,751,000,000) in issue during the period.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover decreased by approximately 26.9% or approximately HK$38.0 million to approximately HK$103.4 million for the six months ended 30 June 2003 compared to the corresponding period in last year (2002: approximately HK$141.4 million).

The decrease in the turnover is primarily due to the outbreak of the Severe Acute Respiratory Syndrome ("SARS") over the Greater China area. The spillover effect of SARS epidemic and a languid economic environment affected the turnover of the Group the most since March 2003 over Hong Kong, China and Taiwan. The unexpected and devastating arrival of SARS epidemic deeply undermined the consumer confidence and pushed the retail spending lower still.

Despite the inevitable fall in the turnover after outbreak of SARS for the current period, the Group was able to take a series of solid business accomplishments which strategically consolidates the businesses of the Group in due course. Firstly, since May 2003, the Group launched the anti-germs aromatherapeutic products under the brand names of Natural Beauty and Oriental Beauty over the markets in Taiwan, Hong Kong and China consecutively, the strong demand of customers quickly proved the success of our strategy. The Group's anti-germs aromatherapeutic products fully capitalize the proven high demand of the personal health care and hygiene products during the SARS rampant period over the regions. Secondly, since the beginning of 2003, the Group continued to focus on improving the quality of its products and services, and increasing the efficiency of its operations, and enhancing the production efficiency. The gross profit margin of the Group increased slightly to approximately 80.5% (2002: approximately 77.3%), it was mainly attributable to the improved production and distribution logistics and effective research and development efforts. The Group has also been continuing to explore and implement a number of cost controlling measures in order to enhance profitability besides from improving the overall operating efficiency. Administrative expenses in particular are being stringently controlled in current period, such as, in many cases, the Group negotiated with the landlords of the self-owned outlets to appeal for rental reduction or abatement to relieve our burden during the SARS period. Meanwhile, the executive and non-executive directors of the Company voluntarily agreed to reduce their emolument by over approximately 70% in 2003. In addition, the improved and effective marketing and promotion efforts proved that the distribution costs lessened compared with corresponding period in last year. In aggregate, the administrative expenses and distribution costs decreased by approximately 11.8% compared with the same period in 2002. Thirdly, in order to further leverage on the experience of the respective local management in the operation and management of the non-wholly owned subsidiaries of the Group in China, the Group continued to negotiate with the relevant local management to enter into the assets entrustment agreements to entrust the management and operation of certain assets, like part of the beauty salons, of the subsidiaries for a period of range over around five years. As at the first half of 2003, the Group had entered a total of six assets entrustment agreements with relevant local management. Pursuant to the assets entrustment agreements, the entrustees would bear the risks and rewards from the operation of these entrusted assets and will pay an annual entrustment fee to the Group. Part of the entrustment fees have been accrued in the condensed consolidated income statement of approximately HK$3.2 million, the relevant parties are in the process of preparing the financial review and the final fee payable will be concluded before the end of current year. The Board considers that it is beneficial for the Group to enter into the assets entrustment agreements because it can highly utilize the expertise and experience on the local management over management of the entrusted assets. At the same time, it significantly reduces the administrative expenses of the Group over management of these assets. The Group will continue to roll-out such program carefully to other non-wholly owned subsidiaries of the Group in China in particular the third or second tier cities where the markets are newly explored.

Tax expenses net of financial refunds for the six months ended 30 June 2003 amounted to approximately HK$2.2 million (2002: approximately HK$9.1 million), representing a decrease of approximately 75.9% over 2002. The decrease in net tax expenses was mainly attributable to change and set up new entity for the production facilities in China and in which new and further preferential treatments are entitled by the Group.

As a result of the above, the Group recorded profit attributable to shareholders amounted to approximately HK$24.2 million (2002: approximately HK$29.1 million), representing a decrease of approximately 16.6% over corresponding period in 2002. The decrease was mainly attributable to the substantial adverse effect of SARS and its impact on the Group's turnover. The net profit margin was approximately 23.4% (2002: 20.6%). The slight increase in the net profit margin was mainly attributable to the stringent cost-cutting and tax planning measures and improved production and operating efficiencies.

In the PRC, the turnover and segment result for the six months ended 30 June 2003 were approximately HK$48.5 million (2002: approximately HK$88.7 million) and HK$17.6 million (2002: approximately HK$32.1 million) respectively. The decrease in turnover and segment result was primarily due to the adverse impact of SARS in China. 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.

In Taiwan, the turnover and segment result for the six months ended 30 June 2003 were approximately HK$53.2 million (2002: approximately HK$52.0 million) and HK$11.3 million (2002: approximately HK$11.3 million) respectively. The result was considered close to the corresponding period in last year. Although the quarantine measure adopted in Taiwan, as SARS affected the region in later time of the interim period (around mid-May and June 2003). Therefore, it was considered that the impact of SARS on the Group's result in the region was short and not very substantial compared with China. On the other hand, the group launched its anti-germs products to the region in due course on around May 2003, the products were well received by the customers in the region.

In Hong Kong, the loss in respect of the segment result was narrowed to approximately HK$0.4 million (2002: approximately loss of HK$5.0 million). It was mainly attributable to the promptly roll-out of assets entrustment program for part of the outlets in Hong Kong during the interim period.

In overall, the Group's result was adversely affected by the slow growth in economy over the Greater China region, onset of SARS, weakening retail and consumer product markets. Nonetheless, having roll-out the strategic moves by the Group, and the markets have been picked up in the mid second quarter, the Board of Directors of the Company was confident about the future prospects of the Group. With a strong balance sheet and steady cashflow, the Group is well positioned to capitalise on the tremendous opportunities ahead.

Liquidity and Financial Management

As at 30 June 2003, the Group's total shareholders' funds were approximately HK$718.3 million including share capital and reserves of approximately HK$200.0 million and HK$518.3 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$238.3 million with no external bank borrowing or any charge on assets. Cash inflow from operating profit before working capital changes was approximately HK$31.9 million for the six months ended 30 June 2003. Accordingly, the Group has adequate resources to fund its future operation.

In terms of gearing, as at 30 June 2003, 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 2003 was approximately 5.0 times (as at 31 December 2002: approximately 4.6 times). As at 30 June 2003, 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 2003, the Group had a total of 1,586 employees of which 1,382 were based in the PRC, 168 in Taiwan and 36 in Hong Kong, total remuneration for the period ended 30 June 2003 was approximately HK$16.5 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 report, 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 23 October 2003 to 24th October 2003, 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 22 October 2003.

Purchase, Redemption or Sale of Listed Securities

During the six months ended 30 June 2003, 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 2003.

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 2003, in compliance with the Code of Best Practice as set out in appendix 14 of the Listing Rules.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information in respect of the Company required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of the Securities on The Stock Exchange will be published on The Stock Exchange's website (http://www.hkex.com.hk) in due course.

By Order of the Board
Dr. Tsai Yen Yu
Chairperson

Hong Kong, 24 September 2003

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