



NATURAL BEAUTY BIO-TECHNOLOGY LIMITED

自然美生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

FINANCIAL HIGHLIGHTS

- Turnover was approximately HK\$306.3 million for the year ended 31 December 2002, representing an increase of approximately 20.3% or HK\$51.7 million over the previous year.
- Operating profit increased by approximately 6.5% or HK\$5.2 million to approximately HK\$85.1 million.
- Operating profit for the PRC and Taiwan segments increased by approximately 32.2% and 24.5% respectively when compared to 2001.
- Profit attributable to shareholders decreased slightly to approximately HK\$66.5 million for the year ended 31 December 2002 due to, among others things a significant increase in tax expenses net of financial refunds.
- The Group had a net cash holdings of approximately HK\$216.8 million as at 31 December 2002.
- The board of directors of the Company (the “Board”) has resolved to recommend a final dividend of HK\$0.015 per share and a special dividend of HK\$0.005 per share.

OPERATIONAL HIGHLIGHTS

- The number of distribution outlets in the Greater China region increased to 2,266 as at 31 December 2002.
- Operations extended to Shengyang City in Liaoning Province, the PRC and Hong Kong.
- Successfully launched three new product lines with over 150 different products in 2002.

ABOUT NATURAL BEAUTY BIO-TECHNOLOGY LIMITED

Natural Beauty Bio-Technology Limited (“Natural Beauty” or the “Company”) is one of the leading researchers, manufacturers and distributors of quality skin care, beauty and aromatherapeutic products in the Greater China region. As at 31 December 2002, the Company has 2,266 distribution outlets in the Greater China region.

The ordinary shares of HK\$0.10 each in the share capital of the Company (“Shares”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 28 March 2002.

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 2002, together with the comparative figures for 2001, as follows:

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001**

		2002	2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	306,278	254,566
Cost of sales		(86,776)	(63,820)
Gross profit		219,502	190,746
Other revenues	2	28,397	6,359
Distribution costs		(100,118)	(75,707)
Administrative expenses		(59,190)	(40,987)
Other operating expenses		(3,531)	(528)
Operating profit	3	85,060	79,883
Finance costs		(477)	(791)
Income from trading securities		2,445	3,017
Share of profit of an associated company		–	73
Profit before taxation		87,028	82,182
Taxation	4	(21,891)	(12,464)
Profit after taxation		65,137	69,718
Minority interests		1,335	1,325
Profit attributable to shareholders		66,472	71,043
Dividends	5	55,000	62,638
Basic earnings per share	6	HK\$0.035	HK\$0.047

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2002 AND 2001**

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non current assets		
Intangible assets	16,466	5,461
Property, plant and equipment	362,186	377,660
Interests in an associated company	942	–
Non-trading securities	11,282	4,446
Deferred tax assets	806	1,020
Other assets	11,043	–
	402,725	388,587
Current assets		
Inventories	52,718	52,674
Trade and other receivables	101,132	64,368
Trading securities	88,133	65,750
Bank balances and cash	216,778	76,110
	458,761	258,902
Current liabilities		
Trade and other payables	82,813	135,211
Deferred income	5,320	–
Taxation payable	11,303	20,778
Short-term bank loans	–	2,112
	99,436	158,101
Net current assets	359,325	100,801
Total assets less current liabilities	762,050	489,388

Non-current liabilities		
Retirement benefit obligations	7,598	6,776
Minority interests	20,322	28,269
	734,130	454,343
Financed by:		
Capital and reserves		
Share capital	200,000	286,328
Reserves	415,938	62,403
Retained earnings		
Proposed dividend	40,000	22,960
Others	78,192	82,652
Shareholders' funds	734,130	454,343

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001**

	2002 HK\$'000	2001 HK\$'000
Net cash inflow from operating activities	48,674	111,264
Net cash outflow from investing activities	(66,176)	(87,119)
Net cash (outflow)/inflow before financing	(17,502)	24,145
Net cash inflow/(outflow) from financing	157,701	(30,493)
Increase/(decrease) in cash and cash equivalents	140,199	(6,348)
Cash and cash equivalents at 1 January	76,110	90,568
Effect of foreign exchange rate changes	469	(8,110)
Cash and cash equivalents at 31 December	216,778	76,110

Notes:

1. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties and investments in securities are stated at fair value.

The Company and its subsidiaries (collectively referred to as the "Group") have been regarded as a continuing group resulting from a group reorganisation (the "Reorganisation") as more particularly described in the Company's prospectus dated 19 March 2002. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which consolidated accounts have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years ended 31 December 2002 and 2001, or since their respective dates of the incorporation or establishment, whichever is later.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP1 (revised):	Presentation of accounts
SSAP11 (revised):	Foreign currency translation
SSAP15 (revised):	Cash flow statements
SSAP34 (revised):	Employee benefits

Adoption of these new policies has no significant impact on the Group's accounts.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in manufacturing and distribution of skin care, beauty and aroma therapeutic products, skin treatments, beauty and SPA services, and beauty trainings. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of goods	254,810	230,021
Service income	51,468	24,545
	<u>306,278</u>	<u>254,566</u>
Other revenues		
Net income from barter transactions	14,994	—
Gross rental income from investment properties	2,228	2,860
Gross rental income from other properties	667	331
Entrustment income from a former minority shareholder	1,979	—
Gain on disposal of assets held for resale	5,817	—
Gain on disposal of property, plant and equipment	—	132
Interest income	1,903	1,355
Other income	809	1,681
	<u>28,397</u>	<u>6,359</u>
Total revenues	<u>334,675</u>	<u>260,925</u>

(i) Geographical segments

The Group conducts the majority of its business activities in three geographical areas, the PRC, Taiwan and Hong Kong (2001: the PRC and Taiwan). An analysis by geographical segment is as follows:

	2002			
	PRC HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Total HK\$'000
Turnover	<u>191,697</u>	<u>111,465</u>	<u>3,116</u>	<u>306,278</u>
Segment results	<u>54,808</u>	<u>47,858</u>	<u>(9,516)</u>	<u>93,150</u>
Unallocated costs				<u>(8,090)</u>
Operating profit				<u>85,060</u>
Finance costs	(428)	(49)	—	(477)
Income from trading securities	—	2,445	—	2,445
Profit before taxation				<u>87,028</u>
Taxation				<u>(21,891)</u>
Profit after taxation				<u>65,137</u>
Minority interests				<u>1,335</u>
Profit attributable to shareholders				<u>66,472</u>
Segment assets	413,832	366,966	19,702	800,500
Unallocated assets				60,986
Total assets				<u>861,486</u>
Segment liabilities	50,728	51,239	2,581	104,548
Unallocated liabilities				2,486
Total liabilities				<u>107,034</u>
Capital expenditure	32,749	4,915	6,717	44,381
Depreciation and amortisation	<u>14,347</u>	<u>6,603</u>	<u>821</u>	<u>21,771</u>

	2001			
	PRC HK\$'000	Taiwan HK\$'000	Hong Kong HK\$'000	Total HK\$'000
Turnover	155,256	99,310	–	254,566
Segment results	41,449	38,434	–	79,883
Unallocated costs				–
Operating profit				79,883
Finance costs	(671)	(120)	–	(791)
Income from trading securities	–	3,017	–	3,017
Share of profit of an associated company	73	–	–	73
Profit before taxation				82,182
Taxation				(12,464)
Profit after taxation				69,718
Minority interests				1,325
Profit attributable to shareholders				71,043
Segment assets	318,409	323,617	–	642,026
Unallocated assets				5,463
Total assets				647,489
Segment liabilities	116,869	42,545	–	159,414
Unallocated liabilities				5,463
Total liabilities				164,877
Capital expenditure	65,333	16,960	–	82,293
Depreciation and amortisation	8,677	4,326	–	13,003

(ii) **Business segments**

	2002				
	Turnover HK\$'000	Other revenue HK\$'000	Segment result HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Cosmetics products and beauty services	306,278	26,169	92,511	721,006	44,381
Investment properties business	–	2,228	639	140,480	–
	306,278	28,397	93,150	861,486	44,381

	2001				
	Turnover <i>HK\$'000</i>	Other revenue <i>HK\$'000</i>	Segment result <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Cosmetics products and beauty services	254,566	3,499	78,652	506,565	82,293
Investment properties business	–	2,860	1,231	140,924	–
	<u>254,566</u>	<u>6,359</u>	<u>79,883</u>	<u>647,489</u>	<u>82,293</u>

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the followings:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Charging		
Depreciation of property, plant and equipment	20,590	12,870
Amortisation of intangible assets (included in administrative expenses)		
– Goodwill	83	37
– Patents and trademarks	110	71
– Development costs	910	–
– Software costs	78	25
Staff costs	48,584	28,667
Write-down of inventories to net realisable value	537	–
Operating leases on land and buildings	21,725	11,661
Outgoings in respect of investment properties	1,589	1,629
Outgoings in respect of other properties	252	236
Loss on disposal of property, plant and equipment	158	–
Auditors' remuneration	1,372	737
Research and development costs	592	1,123
Interest expense on bank borrowings	477	791
Net exchange loss	123	–
Crediting		
Gain on disposal of assets held for resale	5,817	–
Gain on disposal of property, plant and equipment	–	132
Gains on disposal of trading securities	2,445	3,017
Reversal of write-down of inventories	–	630
Recovery of bad debts previously written-off	333	595
Net exchange gain	–	539

4. TAXATION

Income taxes are provided on the assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

For subsidiaries in Taiwan, in addition to the above income taxes charged on the taxable income, income tax is also charged on the unappropriated profits at a rate of 10% (2001: 10%) in the year when shareholders have resolved that the unappropriated profits shall be retained.

The amount of taxation charged to the consolidated profit and loss account represents:

	2002 HK\$'000	2001 <i>HK\$'000</i>
Current taxation:		
– Hong Kong profits tax	–	–
– PRC income tax	11,705	23,601
– Taiwan income tax	17,013	11,683
	28,718	35,284
Deferred taxation		
– The subsidiaries incorporated in Taiwan	242	354
Financial refunds		
– The subsidiaries incorporated in the PRC	(7,069)	(23,174)
	21,891	12,464

No Hong Kong profits tax has been provided, as the Group had no assessable profits in Hong Kong for the year ended 31 December 2002 (2001: Nil).

Certain subsidiaries in the PRC have been informed that pursuant to the rules and regulations promulgated by the finance bureau of the provinces where they operate, they would be entitled to financial refunds based on a percentage of the income taxes paid. However, the financial refund policy is subject to review annually and it is uncertain if these subsidiaries will continue to be eligible for such financial refunds in future. These financial refunds are recognised as a deduction of income tax expense on the basis of amounts received, including receipts subsequent to year-end.

5. DIVIDENDS

	2002 HK\$'000	2001 <i>HK\$'000</i>
Appropriations paid to then shareholders of the Group's subsidiaries prior to the listing of the Company	–	39,678
2001 final, proposed, of HK\$0.01148 per Share	–	22,960
2002 interim, paid, of HK\$0.0075 per Share	15,000	–
2002 special, proposed, of HK\$0.005 per Share	10,000	–
2002 final, proposed, of HK\$0.015 per Share	30,000	–
	55,000	22,960
	55,000	62,638

The Directors proposed a final dividend of HK\$0.015 per Share (2001: HK\$0.01148 per Share) and a special dividend of HK\$0.005 per Share (2001: HK\$Nil per Share). These proposed dividends are not reflected as a dividend payable in the current year accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003. Similarly, final dividend declared in 2002 in respect of 2001 of HK\$22,960,000 was reflected as an appropriation of retained earnings in 2002.

6. EARNINGS PER SHARE

The calculation of the basic earnings per Share for 2002 is based on the Group's profit attributable to shareholders of HK\$66,472,000 divided by the weighted average number of approximately 1,882,192,000 Shares in issue during the year.

The calculation of the basic earnings per Share on a pro forma weighted average basis for 2001 is based on the consolidated net profit attributable to shareholders of HK\$71,043,000 and on the pro forma weighted average number of 1,500,000,000 Share in issue and issuable, comprising 1 Share in issue as of 31 December 2001 and 1,499,999,999 Share to be issued on 11 March 2002.

No diluted earnings per Share is presented, as the Company has no dilutive potential Shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

Turnover increased by approximately 20.3% or HK\$51.7 million to approximately HK\$306.3 million for the year ended 31 December 2002 reflecting continued growth in product sales and service income as a result of increased number of new distribution outlets in the Greater China region.

In the PRC, turnover increased by approximately 23.5% or HK\$36.4 million to approximately HK\$191.7 million. The increase is primarily due to the increase in the number of distribution outlets to 1,590 as at 31 December 2002, representing an increase of 501 distribution outlets.

In Taiwan, turnover increased by approximately 12.2% or HK\$12.2 million to approximately HK\$111.5 million. The growth in Taiwan was a result of increased marketing efforts and the increased in sales through selling to agencies of television direct sales. In addition, the launch of new product lines in Taiwan also contributed to the overall growth.

The Company has opened its first beauty centre in Hong Kong in 2002 and as at 31 December 2002, the Company has a total of three beauty centres in Hong Kong of which two are Class-A Natural Beauty SPA and one is Class-B Natural Beauty Salon SPA. In Hong Kong, the Company reported a turnover of approximately HK\$3.1 million for the year.

Turnover by geographical region

	2002		2001	
	HK\$'000	%	HK\$'000	%
The PRC	191,697	62.6%	155,256	61.0%
Taiwan	111,465	36.4%	99,310	39.0%
Hong Kong	3,116	1.0%	—	—
	<u>306,278</u>	<u>100.0%</u>	<u>254,566</u>	<u>100.0%</u>

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 beauty centres and dedicated counters and are the Group's key revenue contributor, accounting for approximately 83.2% of the Group's turnover for the year ended 31 December 2002 (2001: 90.4%). Gross profit margin of products increased to 85.3% (2001: 82.1%). The increase in both turnover generated from sale of products and gross profit margin was mainly attributable to the increase in distribution outlets, improved production logistic, enhanced inventory control system, quality research and development of the products and effective marketing efforts. During the year, the Group has launched three new product lines namely Bio-up, Oriental Beauty and N&B. Turnover of product sales per franchised store decreased by approximately 10.4% to approximately HK\$112,000 per store for the year ended 31 December

2002 compared to approximately HK\$125,000 in 2001 whilst turnover of product sales per owned stores decreased by approximately 13.1% to approximately HK\$113,000 for the year ended 31 December 2002 compared to approximately HK\$130,000 in 2001. The decrease was due to the introduction of new mass market product lines which has a lower average selling price and increase in the number of distribution outlets which lead to higher competition among distribution outlets located within the same cities.

Services: The Group provides skin treatments, beauty and spa services through its self-owned and operated Class-A beauty centres, namely Natural Beauty SPA. Service income are generated from owned beauty centres only as the Group does not share any service income generated in the franchised beauty centres with franchisees under the current franchise programme. Income from these services increased by approximately 109.7% to approximately HK\$51.5 million. The Group expects demand for skin treatment, beauty and spa services in the PRC to continue to grow as the economy of the PRC continues to prosper. On a per store basis, turnover increased by approximately 77.2% to approximately HK\$668,000 for the year ended 31 December 2002 compared to approximately HK\$377,000 in 2001. The increase was due to significant expansion in the number of distribution outlets and higher consumer awareness of the newly opened beauty centres and spas.

Turnover by activities

	2002		2001	
	HK\$'000	%	HK\$'000	%
Products	254,810	83.2%	230,021	90.4%
Services	51,468	16.8%	24,545	9.6%
	<u>306,278</u>	<u>100.0%</u>	<u>254,566</u>	<u>100.0%</u>

For the purpose of further enhancing the operations (especially financial management) of the 25 non-wholly owned subsidiaries of the Group (the “PRC Subsidiaries”) that served as the regional vehicles of the Group to manage our self-owned and franchised beauty centres in the PRC, the Group seized the golden opportunity to acquire the minority interests in these PRC Subsidiaries in 2002, details of which are set out in the circulars of the Company dated 23 October 2002 and 18 November 2002. In addition, in order to continue to leverage on the experience of the respective local management in the operation and management of certain of the PRC Subsidiaries, the Group has, in 2002, entered into a total of six assets entrustment agreements with relevant local management (the “Entrustees”) to entrust the management and operation of certain assets of the PRC Subsidiaries for a period of five years. Pursuant to the assets entrustment agreements, such Entrustees would bear the risks and rewards from the operation of these entrusted assets and will pay an annual entrustment fee to the Group. The Group will continue to negotiate with interested potential parties with a view to entering into assets entrustment agreements of a similar nature when opportunity arises as the Company believes it will be beneficial for the Company to have the opportunity to rely on the experience and expertise of these entrustees over the management of the entrusted assets.

During the year ended 31 December 2002, the Group opened a total of 22 new self-owned beauty centres and 26 new self-owned dedicated counters thereby incurring capital expenditures of approximately HK\$20.7 million. The Group’s distribution costs as a percentage of turnover increased from approximately 29.7% in 2001 to approximately 32.7% in 2002. The Group’s

administrative expenses as a percentage of turnover has also increased from approximately 16.1% in 2001 to approximately 19.3% in 2002. The increase in the distribution costs and administrative expenses as a percentage of turnover was due to higher staff costs and corporate office expenses as a result of the Company's listing on the main board of the Stock Exchange as well as the acquisitions of the 25 PRC Subsidiaries.

Tax expenses net of financial refunds for the year amounted to approximately HK\$21.9 million (2001: HK\$12.5 million), representing an increase of approximately 75.6% over 2001. The increase in net tax expenses was mainly attributable to the decrease in financial refunds received by the Company. For 2002, the relevant finance bureau has informed the Group that certain subsidiaries are entitled to certain preferential treatments in 2002, however, since such refund is only recorded as a deduction of income tax expense when it has been received or received subsequent to the balance sheet date. Up to the date of this announcement, only approximately HK\$7.1 million of financial refunds have been recorded. Financial refunds received from the local finance bureau in respect of financial year 2001 was approximately HK\$23.2 million.

As a result of the increase in distribution costs and administrative expenses due to the expansion of the number of distribution outlets and the establishment of corporate office in Hong Kong, and the reduction of financial refunds from the local finance bureau of the PRC, the net profit of the Group decreased slightly by approximately 6.4% or HK\$4.6 million to approximately HK\$66.5 million for the year ended 31 December 2002. Geographically, both the PRC and Taiwan operations achieved strong growth in 2002 and have met our internal target. Compare to 2001, operating profit for the PRC and Taiwan operations have increased by approximately 32.2% and 24.5% respectively. Our business in Hong Kong, being its first year of operation in a new market, recorded an operating loss of approximately HK\$9.5 million in 2002.

Financial ratios review

	Formula used	2002	2001
Gross profit margin	Gross profit/Turnover	71.7%	74.9%
EBITDA margin	EBITDA/Turnover	35.1%	37.2%
Current ratio	Current assets/Current liabilities	4.6x	1.6x
Gearing	Net debt/Shareholders' equity	Cash positive	Cash positive
Return on shareholders' equity	Profit attributable to shareholders/ Shareholders' equity	9.1%	15.6%
Stock turnover days	Ending stock/Cost of sales x 365 days	222 days	301 days
Debtors turnover days	Year end trade debtors/Turnover x 365 days	59 days	40 days
Dividend payout ratio	Dividend per share/Earnings per share	82.7%	32.3%

Gross profit margin ratio and EBITDA margin ratio for the year decreased slightly to approximately 71.7% and approximately 35.1% mainly due to a reduction in the margin for service income as a result of increased promotional activities offered by the newly established self-owned beauty centres during the year.

The Company raised net proceeds of approximately HK\$250 million from its initial public offerings in March 2002 of which approximately HK\$180 million was not yet utilised as at 31 December 2002. This has caused the current ratio of the Company to increase from 1.6 times to 4.6 times. During the year, the Company has continued its prudent financial management policy. As at 31 December 2002, the Group has a positive net cash balance of approximately HK\$216.8 million.

Stock turnover days have reduced substantially from 301 days in 2001 to 222 days in 2002. This improvement was mainly the result of a reduction in distribution lead time after the acquisition of the 25 PRC Subsidiaries, which acted as the distributors of the Company in different parts of the PRC in the past. Thus lower stock balance is required to be kept in our warehouses throughout the PRC. Debtors turnover days increased from 40 days in 2001 to 59 days in 2002. The increase was mainly due to an increase in trade receivables arising from television direct sales and year end credit sales. If such amounts were excluded, the debtors turnover days of the Group would be approximately 34 days, slightly lower than 2001.

Sales and distribution channels

In 2002, the Group launched franchise programme for Mini SPAs. Mini SPA is a retail counter occupying around 30 m² to 100 m² of floor area that sells lower-end NB[®] products and offers certain body and facial treatment services to customers. Mini SPAs are designed to target second and third tier cities in the PRC and to cater for the mass market. As at the end of 2002, the Group has four types of beauty centres, namely Natural Beauty SPA, NB Salon SPA, NB Beauty Salon and Mini SPA, each offering a specific range of products and services under unique ambience targeting at different customer groups. During the year, the Group has worked with franchisees to transform Class-C NB Beauty Salon into Class-B NB Beauty Salon with a view to increasing retail space for sale of Natural Beauty products. During 2002, 234 Class-C NB Beauty Salons were successfully transformed into Class-B NB Beauty Salons. A substantial portion of the transformation costs were borne by the franchisees. The Group will offer franchisees of Class-C NB Beauty Salon to transform its store to either Class-B NB Beauty Salon or Mini SPA format at their own choice. The Group expects all existing Class-C NB Beauty Salon will be transformed to other classes stores by 2006.

Products and services

We pride ourselves that all our products are made of natural ingredients extracted from plants imported from various countries including France, Italy, Germany and the United States of America. These products are specially formulated for delicate skins and are particularly suitable for oriental complexion. Currently we have a number of product lines tailored for different segments of the market. In addition, through our research and development efforts, we were able to launch new products continuously. In 2002, we have launched three new product line with over 150 new products.

Production and quality control

To ensure the quality of our products meet the highest standard, all of our products are produced in-house by our two ISO9002 accredited production facilities located in Shanghai and Taipei. Our facilities produced over 1,000 different kind of skin care products under the NB[®] and Bio-up brand names. Current utilisation rate of both the Shanghai and Taipei production facilities are 77.1% (2001: 63.2%) and 70.8% (2001: 70.0%) respectively.

Research and development

With regards to research and development, our continued efforts have bear fruit. We have broadened our product range by successfully launching three new product lines in 2002 namely the Bio-Up skin care series, the Oriental Beauty skin care series, and N&B skin care series.

Liquidity and financial management

During the year, the Company issued and sold 500 million new Shares at the time of its listing, raising net proceeds of approximately HK\$250 million for the Company. Cashflow from operating activities for 2002 was approximately HK\$66.6 million (2001: HK\$134.8 million). The drop was primarily due to substantial increase in trade receivables as a result of trade receivables arising

from television direct sales and year end credit sales. As at 31 December 2002, the Group had bank balances and cash of approximately HK\$216.8 million and trading securities (which are mainly capital guaranteed bond funds) of approximately HK\$88.1 million with no external bank borrowing or any charge on assets.

In terms of gearing, as at each of 31 December 2001 and 2002, the Group had a negative gearing level (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 the current assets divided by the current liabilities) as at 31 December 2002 was approximately 4.6 times (2001: approximately 1.6 times).

As at 31 December 2002, the Group had no material contingent liabilities, outstanding contracted capital commitments was approximately HK\$8.8 million in respect of the acquisitions of additional interests in some of its subsidiaries. With the cash and short term securities in hand, the Group's liquidity position remains strong and the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Use of proceeds

From 28 March 2002 to 31 December 2002, the Group has invested approximately HK\$69.9 million mainly in the establishment of spas, marketing and promotion campaign, research and development, expansion of production facilities and the enhancement of computer system which were in accordance with the plans as set out in the Company's prospectus dated 19 March 2002. The Company will continue to use the unutilised proceeds in accordance with its plans as set out in the Company's prospectus dated 19 March 2002.

Treasury policies and exposure to fluctuations in exchange rates

The Group derives most of its revenue from the PRC and Taiwan (denominated in Renminbi and New Taiwan Dollar) as its operations are mainly concentrated in these two areas. As at 31 December 2002, approximately 69.3% of the Group's bank balances and cash was denominated in Renminbi, while approximately 29.5% was denominated in United States Dollars and Hong Kong Dollars.

The Group maintains a conservative approach on foreign exchange exposure management. 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 development

As at 31 December 2002, the Group had a total of 1,518 employees of which 1,287 were based in the PRC, 185 in Taiwan and 46 in Hong Kong. Total remuneration for the year ended 31 December 2002 was approximately HK\$48.6 million, including retirement benefits cost of HK\$5.3 million. Remuneration packages 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 options 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 operations. The Directors may, at their discretion, invite any employee or directors of the Group and any qualified persons as set out on the scheme, to subscribe for Shares. Up to the date of this announcement, no share option had been granted under the share option scheme.

Future plans and prospects

In 2003, we will continue to develop new products and to expand our market reach and brand name recognition in the Greater China region with the PRC market as our core focus. Year 2003 is expected to be a challenging year – competition is expected to further intensify following China and Taiwan's accession into the World Trade Organisation and consumer and tourism spending is expected to be negatively affected by the recent war in Iraq and more importantly, the outbreak of Severe Acute Respiratory Syndrome in the region.

However, with the leadership from our management team and the highly experienced board of directors, we are confident that we have the ability to navigate through the current situation and progress to our goals. In 2003, we will continue to work diligently to maintain growth in this extremely competitive operating environment and have formulated plans to strengthen our leading position and to set the foundation for future growth.

In particular, 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. By the end of 2006, we expect the total number of our distribution outlets in the Great China region to exceed 5,000. 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.

Going forward, the Group will, as and when opportunity arises, enter into negotiation with interested potential parties on the entrustment of the operation and management of certain assets to these parties. The management of the Company believes it will be beneficial for the Company to have the opportunity to rely on the experience and expertise of these potential parties (which need to possess both financial capability and expertise in management spas operations) over the management of the entrusted assets. This arrangement will enable the Group to receive a stable entrustment fee income (which will be determined based on an agreed rate of return on the value of the entrusted assets) and to continue to earn income from products sales whilst at the same time transfer the risks and rewards from the operation of these entrusted assets to the potential entrustees. The Group expects the assets entrustment arrangements to be similar to the six assets entrustment agreements that the Group has entered into in 2002 which results has proven to be encouraging.

Besides 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 supports from our member of staffs, 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 (2001: HK\$0.01148) and a special dividend of HK\$0.005 per Share (2001: Nil). Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend and special dividend will be distributed on or before 30 June 2003 to shareholders whose names appear on the register of members of the Company as at the close of business on 26 May 2003.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company (the "Annual General Meeting") will be held on 29 May 2003. For the details of the Annual General Meeting, please refer to the notice of Annual General Meeting below.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 May 2003 to 28 May 2003, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the final and special dividends to be approved at the forthcoming Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Hong Kong Registrars Limited, at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 26 May 2003.

CORPORATE GOVERNANCE

The Audit Committee has reviewed with the management of the Company 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 2002.

The Audit Committee comprised of all the independent non-executive Directors and has met five times in 2002. The Audit Committee has met to review the accounts of the Group for the year ended 31 December 2002 prior to recommending them to the Board for approval.

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").

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

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year.

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, 23 April 2003

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 I, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on 29 May 2003 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 2002.
2. To approve the final and special dividends for the year ended 31 December 2002.
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.

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 its 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 or 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. To transact any other business.

By order of the Board
Lee Wai Kam, Hyman
Company Secretary

Hong Kong, 23 April 2003

Notes:

- 1 The register of members of the Company will be closed from 27 May 2003 (Tuesday) to 28 May 2003 (Wednesday), both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the final and special dividends, 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 26 May 2003 (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 2002 annual report.

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