



Natural Beauty Bio-Technology Limited

自然美生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2002

2002 INTERIM RESULTS HIGHLIGHTS

- The Group recorded a turnover of approximately HK\$141,355,000 for the six months ended 30th June 2002, representing an increase of 39% over corresponding period in 2001.
- The net profit for the six months ended 30th June 2002 was approximately HK\$29,077,000, a 86% improvement from the prior corresponding period.
- 500,000,000 new shares of the Company of nominal value of HK\$0.10 each at HK\$0.55 per share were successfully issued and listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Directors of the Company is pleased to announce their first unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2002 (the “Current Period”), together with the comparative figures for the corresponding period in 2001, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

(With comparatives for the six months ended 30th June 2001)

(Expressed in thousands of Hong Kong dollars (HK\$'000))

	<i>Note</i>	For the six months ended 30th June	
		2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000
Turnover	4	141,355	101,435
Cost of sales		(32,115)	(31,433)
Gross profit	5	109,240	70,002
Other operating income, net		1,391	378
Distribution costs		(46,164)	(36,227)
Administrative expenses		(26,475)	(17,802)

Profit from operating activities		37,992	16,351
Finance income, net		206	578
Income from short-term investments		1,120	1,048
Share of profit of an associate		–	73
Others, net		(480)	1,917
		<hr/>	<hr/>
Profit before tax	6	38,838	19,967
Income tax expense	7	(9,111)	(5,607)
		<hr/>	<hr/>
Profit after tax		29,727	14,360
Minority interests		(650)	1,303
		<hr/>	<hr/>
Net profit for the period		29,077	15,663
		<hr/>	<hr/>
Dividends	8	22,960	39,678
		<hr/>	<hr/>
Earnings per share	9		
– Basic		0.017	0.010
– Diluted		Not applicable	Not applicable
		<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of Hong Kong dollars (HK\$'000) unless otherwise stated)

1. Accounting Policies and Basis of Preparation

The accompanying unaudited condensed 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 adopted in preparing the 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 31st December 2001.

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 2001 annual financial statements.

2. Principles and Basis of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Natural Beauty Bio-Technology Limited (the “Company”) and its subsidiaries (hereinafter together with the Company referred to as the “Group”), which have been regarded as a continuing group resulting from a group reorganisation (the “Reorganisation”, as described in the paragraph headed “Group reorganization” in the appendix VI of the prospectus of the Company dated 19th March 2002).

3. Segment Information

(a) Geographical segment

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

	For the six months ended 30th June 2002				For the six months ended 30th June 2001			
	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
REVENUE	88,709	51,980	666	141,355	45,851	55,584	–	101,435
RESULTS								
Operating profit	32,507	10,511	(5,026)	37,992	(151)	16,502	–	16,351
Finance (expense) income, net	(510)	716	–	206	(166)	744	–	578
Investment income	–	1,120	–	1,120	–	1,048	–	1,048
Share of profit of an associate	–	–	–	–	73	–	–	73
Others	(573)	93	–	(480)	1,089	828	–	1,917
Income taxes	(5,831)	(3,280)	–	(9,111)	(73)	(5,534)	–	(5,607)
Minority interests	(647)	(3)	–	(650)	1,308	(5)	–	1,303
Net profit	24,946	9,157	(5,026)	29,077	2,080	13,583	–	15,663

(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 30th June	
	2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000
Revenue	859	1,666
Net profit	564	797
Segment assets	147,744	147,744

4. 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 products and service lines is as follows:

	For the six months ended 30th June	
	2002	2001
	(unaudited) HK\$'000	(unaudited) HK\$'000
Skin care products	94,815	62,107
Beauty products	2,530	2,163
Aromatherapeutic products	7,861	7,046
Skin treatments, beauty and Spa services	21,018	8,042
Beauty training	1,227	1,242
Rental income	859	1,666
Others	13,045	19,169
	<u>141,355</u>	<u>101,435</u>

5. Gross Profit

An analysis of gross profit (loss) by major products and service lines is as follows:

	For the six months ended 30th June	
	2002	2001
	(unaudited) HK\$'000	(unaudited) HK\$'000
Skin care products	86,027	50,282
Beauty products	2,289	1,436
Aromatherapeutic products	6,550	4,451
Skin treatments, beauty and Spa services	3,793	1,660
Beauty training	48	448
Rental income	564	797
Others	9,969	10,928
	<u>109,240</u>	<u>70,002</u>

6. Profit before Tax

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

	For the six months ended 30th June	
	2002	2001
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Crediting:		
Interest income on bank deposits	902	959
Realized gain on disposal of short-term investments	1,120	1,048
Reversal of provision for write-down of inventory	–	458
Reversal of provision for doubtful debts	–	250
Gain on disposals of property, plant and equipment	<u>7</u>	<u>–</u>
Charging:		
Staff costs, excluding directors' emoluments		
– Salaries and wages	16,280	13,494
– Pension costs (<i>Note 13</i>)		
– PRC	1,129	677
– Taiwan	552	538
Depreciation of property, plant and equipment	8,174	5,395
Provision for write-down of inventory	192	–
Provision for doubtful debts	102	–
Interest expense on bank borrowings	696	381
Operating lease expense on land and buildings	9,248	5,253
Research and development costs	269	741
Amortization of other long-term assets	<u>101</u>	<u>84</u>

7. Income Tax Expense

(a) Taxation represents:

	For the six months ended 30th June	
	2002	2001
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax (<i>Note (i)</i>)	–	–
– PRC income tax (<i>Note (ii)</i>)	9,602	6,393
– Taiwan income tax (<i>Note (iii)</i>)	<u>3,392</u>	<u>5,217</u>
	<u>12,994</u>	<u>11,610</u>
Deferred taxation		
– The Group's companies incorporated in Taiwan ("Taiwan Companies")	<u>(112)</u>	<u>317</u>
Financial refunds		
– The PRC Companies (<i>Note (ii)</i>)	<u>(3,771)</u>	<u>(6,320)</u>
	<u>9,111</u>	<u>5,607</u>

- (i) No Hong Kong profits tax has been provided, as the Group had no assessable profits in Hong Kong for the six months ended 30th June 2002.
- (ii) The PRC income tax for the six months ended 30th June 2002 represents enterprise income tax (“EIT”) on the taxable income reported in the statutory accounts of the PRC Companies.
- (iii) The Taiwan income tax for the six months ended 30th June 2002 represents income taxes charged at a rate of 25 per cent on the taxable income of Taiwan Companies.

Income tax is charged at a rate of 10 per cent on the unappropriated profits in the year, when shareholders have resolved that the unappropriated profits shall be retained.

8. Dividends

As of 30th June 2002, the shareholder’s meeting approved the dividend appropriation for 2001 of approximately HK\$22,960,000 (HK\$0.01148 per share, divided by 2,000,000,000 shares) (corresponding period of 2001: HK\$39,678,000, (HK\$0.02645 per share, divided by 1,500,000,000 deemed shares)), which has been paid-off subsequent to 30th June 2002.

Subsequent to 30th June 2002, the directors recommended interim dividend of approximately HK\$15,000,000 (HK\$0.0075 per share, divided by 2,000,000,000 shares) for the six months ended 30th June 2002.

9. Earnings per Share

The calculation of basic earnings per share was based on the unaudited consolidated net profit of approximately HK\$29,077,000 for the six months ended 30 June 2002 (corresponding period of 2001: approximately HK\$15,663,000) divided by the weighted average number of approximately 1,751,000,000 ordinary shares (corresponding period of 2001: pro forma number of 1,500,000,000 deemed ordinary shares) in issue during the period.

The diluted earnings per share was not calculated, because no potential shares existed.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights and Business Review

During the period under review, the Group’s net profit grew by 86% to approximately HK\$29,077,000 (2001: HK\$15,663,000). The Group’s basic earnings per share increased by 70% to approximately HK\$0.017 (2001: HK\$0.010). The basis of calculation for the earnings per share is detailed in note 9 to the condensed consolidated financial statements.

Despite the general economic downturn worldwide and in particular the retail market was looking decidedly grim in the Current Period, the Group was able to achieve both turnover and profit growth of it, as the Group has solid foundation positioned in the Greater China market.

Contributing to the performance of the Current Period was the Group’s management continual commitment to maximise profits through effective marketing techniques, restructuring of its distribution network and continual introduction of innovative products and high profit margin revenues.

Total sales for the Current Period increased by 39% to approximately HK\$141,355,000 (2001: HK\$101,435,000) within which sales in China contributed approximately 63% of the turnover. It was obvious that the Group’s strategy for expansion and repositioning in the China market has succeeded. In prior year, in order to capitalise on the opportunity and for its long term business development in the China market, the Group carried out a restructuring of its distribution channels by establishing and

acquiring 25 subsidiaries in major cities of China. These PRC subsidiaries serve as the regional vehicles of the Group to manage their self-owned and franchised beauty centers. It has proven that the restructuring is able to strengthen the distribution network and enhance the sales management of the Group in the China market. Most importantly, it caters to the fast economic growth in the PRC after accession to the World Trade Organisation. The sales in China increased by approximately two times from approximately HK\$45,851,000 for the six months ended 30th June 2001 (the “Prior Corresponding Period”) to HK\$88,709,000 in the Current Period. In addition, the net profit margin for the PRC segment increased from approximately 5% in the Prior Corresponding Period to approximately 28% in the Current Period due to above mentioned reasons.

In Taiwan, the turnover and net profit for the Current Period were decreased slightly compared with the Prior Corresponding Period. The turnover and net profit in the Current Period were approximately HK\$51,980,000 (2001: HK\$55,584,000) and HK\$9,157,000 (2001: HK\$13,583,000) respectively. In the Current Period, the Group devoted tremendous efforts in new products development in order to adapt the ever-changing demand of the market. Furthermore, the Group is always emphasizes on product research, in order to maintain the competitive edge and the leading market position in Taiwan. The Group has strong and experienced international research and development team in Taiwan, they take into account the feedback from customers and keep abreast of the development and demand of the market. The research and development team develops new, advanced and high quality products for the Group. In the Current Period, the Group has developed over 70 new bio-technological skin care and beauty nutrition products, which included over 10 items of beauty nutrition products, launched and to be launched to the market. In the Current Period, the persistent economic downturn has affected the Group’s revenue and profit in certain extent. In general, the retail market in Taiwan looked grim after the slowdown in global economy in the short run. However, through the experience of the management in the market in the region, the edge of the quality of the products together with the continual market oriented product development and the brand name of Natural Beauty has been well recognised among the customers over twenty years, the Group is confident that more revenues and profits will be reflected in the second half year of 2002.

For Hong Kong, the development of the market in the territory is still in the initial stage. In the Current Period, there were three showing stores, including A-class Natural Beauty Spa and B-class salon spa retail outlet, opened in the region. Many customers were satisfied with the products and services. Most of the customers were deeply impressed by the quality of the products, particular the products with regard to compatibility to features of Chinese women. In addition, most of the customers find that our spa & beauty services are professional and exceptional in the market in the region. This encourage feedback proves that the Group are on the right track and able to grasp the market needs and opportunities. In the Current Period, as many setup expenditures have to be incurred in the region, no profit has been generated yet. However, it is confident that encouraging results will be generated when more beauty centers are opened in the territory and their distribution network and operating efficiency are established in the short run.

In the Current Period, skin care products was the major contributor to the revenue and margin of the Group for the Current Period, its revenue amounted to approximately HK\$94,815,000 (2001: HK\$62,107,000), representing approximately 67% (2001: 61%) of total turnover. The sales volumes increased due to the popular demand and the well established brand image of “NB®” among various oriental countries and, as a result of the continual innovative products have been launched to the market. Most of the consumers in the Greater China recognise that the Group’s skin care products were most suitable for oriental women. The gross profit margin for the skin care products was improved from approximately 81% in the Prior Corresponding Period to 91% in the Current Period. The increase in the

gross profit margin for the skin care products was mainly attributable to the improved production logistic, enhanced inventory control system, continual research and development of the products and restructured distribution channels in the PRC.

The service revenue was also increased substantially in the Current Period. Particularly, the income from skin treatments, beauty and spa services increased by approximately 161% to approximately HK\$21,018,000 (2001: HK\$8,042,000), equivalent to approximately 15% (2001: 8%) of total turnover. As a matter of fact, market demand for skin treatment, beauty and spa services in China are growing at a significant rate, as the average family disposable income in the region has been continuously rising in recent few years.

Distribution costs increased in proportion to the increase in sales volume and as a result of the restructuring of the distribution channels concerning 25 acquired subsidiaries in the PRC in the whole Current Period. Administrative expenses increased also due to acquisition of the subsidiaries in the PRC in the whole Current Period and the set up cost incurred in Hong Kong at the beginning stage. The Group will continue to carry out cost control measures to increase the operating efficiency and thereby increase the Group's competitiveness in the market.

Financial Ratios Review

	At 30th June 2002	At 30th June 2001
Current ratio	4.32	1.64
Quick ratio	3.87	1.3
Days inventory turnover	268 days	302 days
Days debtors turnover	37 days	49 days
Gearing ratio	0.87 %	1.05%

As at 30th June 2002, the Group's current ratio was 4.32 and the quick ratio was 3.87. The increase in current ratio and quick ratio compared with the balances on 30th June 2001 were attributable to gross proceed of approximately HK\$0.27 billion (approximately net proceed of HK\$0.25 billion after deduction of related issuance expenses) was raised from the initial public offer and placing of the shares of the Company on the Stock Exchange in March 2002.

The Group's inventory turnover was reduced to 268 days (2001: 302 days) as the Group seeks to enhance the inventory level.

The Group's debtors turnover days remained relatively stable at 37 days (2001: 49 days). The Group normally grants trade credit to its customers with maximum of 2 months, except for sales made to certain credit-worthy customers, as approved from time to time by senior management of the Group. Over 98% of the Group's trade receivables are within 1 year's ageing.

The Group had non-current liability concerning retirement benefit obligation of approximately HK\$7,530,000 and its total assets amount to approximately HK\$863,691,000 at 30th June 2002. In this regard, the Group's gearing ratio, expressed as a percentage of non-current liabilities over total assets, was 0.87% as of 30th June 2002.

Liquidity and Financial Resources

The Group had total cash and cash equivalent at 30th June 2002 of approximately HK\$251 million (30th June 2001: HK\$76 million). In addition, the Group had short term investments at 30th June 2002 of approximately HK\$76 million (30th June 2001: HK\$66 million) representing the capital guaranteed bond funds mainly related to the listed securities in Taiwan. The net cash inflow from operating activities for the Current Period was approximately HK\$33 million (the Prior Corresponding Period: HK\$23 million). Taking into consideration of the existing financial resources available to the Group, it is anticipated that the Group have sufficient financial resources to meet its ongoing operating and development requirements.

The Group's funding requirements have been financed by its working capital. The short term new Taiwan dollars bank borrowing of HK\$2,112,000 has been fully paid and the relevant director's guarantee has been released. Accordingly, the Group did not have any bank borrowings as at 30th June 2002.

As at 30th June 2002, the Group had outstanding capital commitment of approximately HK\$274,000 in respect of acquisition of property, plant and equipment.

As at 30th June 2002, the Group had no material contingent liabilities.

In view of the capital structure of the Group, please refer to note 14 to the condensed consolidated financial statements for details.

Treasury Policy and Exposures to Fluctuation in Exchange Rates

The Group conducts its core business transactions in mainly Hong Kong, Taiwan and China's denominated currencies. The Group's financial statements are stated in Hong Kong dollars. Accordingly, any significant volatility and depreciation of Renminbi and New Taiwan dollars could adversely affect the Group's business, financial condition and results of operations. The Group will continue to conduct periodic review of its exposure to foreign exchange risk and use derivative financial instruments to hedge against such risk, as considered appropriate in the circumstances. During the period under review, the Group had not used any financial instrument for hedging purposes, as the exchange rate between New Taiwan dollars and Hong Kong dollars had no adverse fluctuation, together with the minimal fluctuation in the exchange rate between Hong Kong dollars and Renminbi. The Group considered its exposure to adverse exchange rate risk in the Current Period was minimal.

Employment, Training, Development and Remuneration Policies

As at 30th June 2002, the Group has a total of 727 employees of which 512 are based in the PRC, 174 in Taiwan and 41 in Hong Kong. The Group always maintains good working relations with its employees and has committed itself to employee training and development. To promote and maintain the quality and consistency of the services provided in its self-owned and franchised beauty centers, the Group offers continuing professional training courses to the beauticians employed by the Group and its franchisees.

Remuneration packages of the Group are maintained at a competitive level and reviewed on a periodical basis. Bonus and options are awarded to employees according to the assessment of individual performance and industrial practice.

In addition, the Group has adopted a Share Option Scheme on 11th 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 Share Option Scheme, to subscribe for shares of the Company. As at 30th June 2002 and up to the date of this announcement, no options had been granted under the Share Option Scheme.

The Group's subsidiaries in the PRC have participated in defined contribution retirement schemes organised by the relevant local government authorities in the PRC and are required to make monthly contributions at 9% to 27% of the relevant PRC employees' salaries to the schemes. The Group's subsidiaries in Taiwan have pension plans for its regular employees, and are required to make monthly contributions at 2% of salaries into an account maintained with the Central Trust of China in the name of a pension fund monitoring committee as required by the relevant Taiwan laws and regulations. The Group has also adopted a provident fund scheme for its employees in Hong Kong as required under the Mandatory Provident Fund Scheme Ordinance.

Prospect Highlights

The Group will continue to concentrate on its core operations and markets. And, the Group will focus its strategy in sales of skin care products in the Greater China. The directors consider that, given over 30 years of the experience engaging in beauty and skin care related businesses of the management, the well recognised brand name and the extensive distribution channels, the Group is well positioned to capitalise on the expected future growth of the beauty and skin care market in the Greater China region, especially in the PRC market. The Group is confident to further expand its market share in the Greater China in next few years. As a matter of fact, the Group's products are tailor made for the specific features of Chinese women, this is also the reason for the continued popularity of the products of the Group in the Greater China region. As the Group's planning of enhancing the distribution channels and increasing the number of Natural Beauty beauty centres by expanding the franchise programme have been succeeding step by step, it is believed that the market share of the Group's products will be increased extensively in the Greater China in next few years. In reality, apart from producing tailor made skin care products exceptionally fitting to specific features of Asian women, the Group will continue to introduce more skin care and beauty related products, like beauty nutrition food and beverage, in particular for the health of Asian women, and cater to the needs and requirements of modern Chinese ladies. The enhanced products of the Group will become the indispensable part of the life of the Asian women.

As the Group considers that the present and future look rosy in China, and due to its accession to the World Trade Organisation, it is believed that there is a huge room for the Group's future expansion in the market. In view of the entry to the World Trade Organisation of China, the local government will allow more foreign international competitors to access in this industry in the region, and competition will become more intense. However, the Group is confident with its prospect in the region. Taking into account of the experience of the Group and over 10 years established sales network in the industry and premium product and service qualities and particularly fitting for specific nature of skin type of Chinese women, the Group's image has been well recognised among the consumers in China. The Group will continue to capitalise its managerial and financial resources to established more self-own beauty centres in major cities and provinces, and through acquisition of potential and initially set-up cosmetic and beauty nutrition food businesses, it is able to further expand the Group's revenue in cost efficient and effective manners. Up to the date of this announcement, the Group has acquired a nutrition food production company. There are well established sales points and many well trained sales representatives of this acquired business. Through further restructuring and improvement, it is expected that the acquired company will bring favourable contribution to the Group in next year.

The Group plans to set up more Natural Beauty spa in the PRC, covering most major provinces and cities. The Group believes that the spa is able to provide full range of skin treatment, aroma therapeutic and beauty related services and capture those customers with high consumption power and requirement, in which they afford to utilise full range of the Group's products and hence increase the product sales, and that this business line presents a strong growth potential to the Group. The Group strongly believes that the consumption power of the customers in the region has been increasing significantly, and the customers trend to put more emphasises and importance on health nowadays. In addition, in view of the increasing pace up of the economy and the emphasises on both health and beauty, more Chinese women are eager to be relaxed in our Natural Beauty spa after their busy work. In view of that, the Group will continue to establish more Natural Beauty Spa in most major provinces and cities. Besides from providing full range of skin care, aroma therapeutic and beauty services, more enhanced bio-technological products and beauty nutrition foods will be introduced to the market, in order to capture those demand with high consumption power and presents a strong growth potential to the Group's profit. The Group has entered into a memorandum of understanding with a well-known America bio-technology company to establish a strategic collaborations to research and develop innovative bio-genetic beauty products. Through their advanced research on cellular biology and patented biological and bio-genetic technology, the products are tailor made for the body and emphasise on nature of Asian people, stressing on health of whole human body besides from beauty. It is expected that products will be launched to the market in next year through the established network of that company in the United States. It is believed that it presents unlimited opportunities and a new market to the Group.

In particular to the Taiwan market, besides from above mentioned, more innovative and high quality products will be launched to the market. The Group will select outstanding and well developed beauty centers to be upgraded in higher class, such as upgrading the Natural Beauty beauty salon to the Natural Beauty salon spa as well as expanding the floor area of Natural Beauty beauty salon and enlarging the number of dedicated counter, in order to provide broaden range of products and services and improve the Group's turnover and profit.

For Hong Kong, the Group is planning to extend the number of beauty centers, including self-own and through the franchise programme, in the region which is expected to generate additional revenues and profits, including sales income and franchise fee, for the Group.

As a leading skin care and beauty service provider in the Greater China region, the Group will continue to offer premium quality products and fully integrated services to its customers. The Group will put more emphasises on the product research and development of new, innovative and popular products. For example, forming collaboration with the Harvard University to develop anti-aging and other bio-technology beauty products via bio-genetic technology. The directors and senior management of the Group will continue to closely monitor the trend of the market. It is believed that product and service diversification enables the Group to expand its product and service varieties and manage its business risks effectively. Besides, the increase of product variety and service range can broaden the customer base of the Group, with a view to further enhancing the Groups' competitiveness in similar market segments, and focus on the fast growing middle and high income earners in China in recent few years. For example, in the short run, the Group intends to introduce more women relate products, like health food, underwear, brassiere products, jewellery and women accessories in order to broaden the Group's product lines and revenues.

As mentioned above, and owing to the market demand for skin care, beauty and aromatherapeutic products and skin treatments and Spa services are expected to grow at an increasing rate when the average family disposable income continues to rise in the PRC. In order to capitalize on this opportunity and for its long-term business development, the Group is carrying out a restructuring of its distribution channels by acquiring the interests of the minority shareholders of part of the subsidiaries in China, regaining full control of the subsidiaries in the PRC and enhancing its operational control and financial management. After the acquisitions, it is anticipated that revenues and cost control of the Group can be improved in a great extent. Meanwhile, profit margin of the Group will be further enhanced.

Through the Group's continual disciplined cost management, the Group is capable of putting all the expenses under effective control. This initiative not only contributes to cost reductions but also helps to streamline the Group's overall operations. At the same time, the Group will actively seek for any relevant and suitable investment opportunities that with synergy effect to the Group's existing business in order to generate additional income and maximise returns for our valuable shareholders.

Taking into account the growing demand of the market, the Group has adopted new Oracle Enterprise Resources Planning System ("ERP") before listing of the Company on the Main Board of the Stock Exchange and the Group intends to implement new Partnership Relationship Management System ("PRM") to replace the existing information system, in order to enhance the competitive advantage in the market.

Oracle ERP system is a Globalised enterprise resources planning information system, comprising functional modules like purchasing, manufacturing, inventory control, point of sales, accounting and human resources management system. Through network transmission, the Group can retrieve business information on-time, enhancing the efficiency of the Group's operations, achieving office automation and reducing operational and administrative costs. The Oracle ERP system is now close to the completion stage, on-line implementation is expected on January of next year.

PRM system comprises the modules like store management, client relationship management and on-line computerised skin examination system. Through network transmission, the Group can retrieve the operational information and skin test information from every sales point. It is able to enhance the efficiency of the Group's operations such as production, inventory control and delivery of products and thus optimise the yield of higher profit margin. Having built up the scale business partner/customer database, the Group can utilise those data conducting one-to-one marketing, cross-selling and up-selling, so as to enhance the revenue of the Group. The Group now evaluates the system among different providers, it is anticipated that the system can be implemented in next first half year. The Group will also actively promote the B2C internet market in 2003 in order to increase the income of the Group.

Moreover, the Group will continue to develop and strengthen alliance with the leading international beauty and skin care enterprises to explore potential markets and to enlarge its market share, in order to establish "Natural Beauty" as a genuine international brand and a real global player.

Looking ahead, with the huge potential and market development in the PRC market, together with the sales volume for the skin care and beauty products should be increased due to popular demand of these products in Autumn and Winter seasons in the market, normally about and over two times of the sales volume compared with the first half of the year, the directors and management are confident that the second half of 2002 will provide a period of fruitful harvest for the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 7th October 2002 to 10th October 2002, 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 the relevant share certificates must be lodged with the Company's Hong Kong share registry, Hong Kong Registrars Limited at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 4th October 2002.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in appendix 14 of the Listing Rules, since the listing of the Company's share on the Stock Exchange on 28th March 2002.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed equity securities since the listing of the Company's share on the Stock Exchange on 28th March 2002.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the Current Period.

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
Chairman

Hong Kong, 19th September 2002

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