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Natural Beauty Bio-Technology Limited

自然美生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00157)

QUARTERLY UPDATE ON SUSPENSION OF TRADING

This announcement is made by Natural Beauty Bio-Technology Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) pursuant to Rules 13.09 and 13.24A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to (i) the announcements of the Company dated 24 March 2020, 29 April 2020, 24 June 2020, 21 July 2020, 27 July 2020 and 23 September 2020 in relation to, amongst others, an investigation on certain audit findings raised by the Company’s Previous Auditors (the “**Forensic Review**”); (ii) the announcements of the Company dated 21 May 2020 and 14 August 2020 (the “**Resumption Guidance Announcements**”) in relation to the conditions for the resumption of trading in the shares of the Company (the “**Resumption Conditions**”); (iii) the announcement of the Company dated 3 August 2020 in relation to the resignation of the Previous Auditors; (iv) the announcement of the Company dated 16 August 2020 in relation to the appointment of the Auditors; (v) the announcement of the Company dated 25 August 2020 in relation to, among others, the appointment of the internal control consultant; (vi) the announcement of the Company dated 20 November 2020 in relation to the key findings of Additional Forensic Review; (vii) the announcement and the supplemental announcements of the Company dated 30 November 2020

and 7 December 2020 in relation to the audited annual results of the Group for the year ended 31 December 2019; (viii) the announcement of the Company dated 30 November 2020 in relation to the Auditors' letter to the Audit Committee; (ix) the announcement of the Company dated 2 December 2020 in relation to the Group's interim results for the six months ended 30 June 2020; (x) the announcement of the Company dated 2 December 2020 in relation to the findings of the internal control review; (xi) the annual report of the Company for the year ended 31 December 2019; and (xii) the interim report of the Company the six months ended 30 June 2020. Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the announcement of the Company dated 20 November 2020 (the "**Announcement**").

RESUMPTION GUIDANCE

As disclosed in the Resumption Guidance Announcements, the Company has been notified by the Stock Exchange of the following resumption guidance:

- (a) conduct an appropriate investigation into the Issues raised by the then Auditors, announce the findings and take appropriate remedial actions;
- (b) publish all outstanding financial results and address any audit modifications;
- (c) conduct an independent internal control review and demonstrate that the Company has in place adequate internal control and procedures that address the concerns identified in the forensic review referred to in the Announcement and ensure the Company to comply with the Listing Rules; and
- (d) inform the market of all material information of the Company.

Pursuant to Rule 13.24A of the Listing Rules, the Board wishes to update the shareholders and potential investors of the Company of the latest development on the Company's efforts to fulfil the Resumption Conditions as at the date of this announcement.

UPDATE ON INVESTIGATION INTO THE ISSUES

Findings

As disclosed in the Announcement, in response to the Previous Auditors' enquires on the sales made by the Group to certain distributors and how certain individual distributors and customers settled their payments to the Group (the "**Issues**"), the Audit Committee engaged PricewaterhouseCoopers Management Consulting (Shanghai) Limited as Forensic Accountant to conduct Forensic Review on certain of Group's wholly-owned subsidiaries in China of the Issues.

On 6 July 2020, the Forensic Accountant prepared a draft report on the Forensic Review relating to matters in 2019 (the “**Draft Forensic Review Report**”), the key findings of which have been disclosed in the Company’s announcement dated 21 July 2020. The final report of the Forensic Review (the “**Forensic Review Report**”) was issued by the Forensic Account on 19 November 2020. There was no material difference between the 6 July Draft Forensic Review Report and the Forensic Review Report.

Upon review of the Draft Forensic Review Report, on 7 July 2020, the Audit Committee instructed the Forensic Accountant to conduct additional procedures to investigate into certain matters prior to 2019 (the “**Additional Forensic Review**”). A report on the Additional Forensic Review was issued on 19 November 2020. The key findings of the Additional Forensic Review have been disclosed in the Announcement.

Remedial Actions

Since the findings of the Forensic Review became available, the Board has taken various remedial actions to address the concerns identified in the Forensic Review. These remedial actions are also applicable to address the issues identified in the Additional Forensic Review.

In addition, the Company instructed Shinewing to conduct an independent review of the internal control systems and procedures of the Group to address the concerns identified in the Forensic Review and the Additional Forensic Review, as well as the internal control deficiencies identified by the Auditors. For details of the enhanced internal control measures adopted by the Company and the results of the Internal Control Review, please refer to the Company’s announcement dated 30 November 2020 in relation to the key findings of the Internal Control Review.

UPDATE ON PUBLICATION OF OUTSTANDING FINANCIAL RESULTS AND ADDRESS OF AUDIT MODIFICATIONS

Publication of financial results

Given the Issues described above and the reasons stated in the Company’s announcement dated 24 March 2020, the Company was unable to make an announcement of its 2019 preliminary results based on the 2019 Financial Statements which would had been agreed with the auditors in accordance with Rules 13.49(1) and 13.49(2) of the Listing Rules. The audit works on the 2019 Financial Statements commenced upon the appointment of RSM Hong Kong as the Company’s Auditors.

The Board is pleased to announce that as of the date of this announcement, the Company has published all the outstanding financial results. Details of the relevant announcements and the reports, as well as the date of publication are as follows:

Date of publication	Results/reports
30 November 2020	Audited annual results for FY 2019
3 December 2020	Interim results for the six months ended 30 June 2020
11 December 2020	Annual Report for FY 2019
11 December 2020	Interim report for the six months ended 30 June 2020

Address of audit modifications

RSM Hong Kong has given a modified opinion in respect of the 2019 Financial Statements. The Company's responses to the Auditors' modified opinion are set out below:

Modifications	Response
1 Opening balances and comparative figures – Revenue recognition method possibly deviated from the Group's accounting policies (“ Modification 1 ”)	<ul style="list-style-type: none"> The Company admits the deviation from the Group's accounting policies but would also like to highlight that this is a matter of accounting treatment. As such, the Company did not suffer actual loss.
2 Opening balances and comparative figures – Goods Exchange Promises possibly made before 2018 (“ Modification 2 ”)	<ul style="list-style-type: none"> This issue would result in re-allocation of related sales amongst 2018 and prior years, although the Company had not suffered actual loss because of this issue. That being said, the Company has taken relevant remedial actions from an internal control perspective, including the strict prohibition on any goods exchange promises other than legitimate goods return.

Modifications	Response
3 Opening balances and comparative figures – Accounting treatment of a disputed sales contract (“ Modification 3 ”)	<ul style="list-style-type: none"> • This disputed sales contract was a one-off event. • That being said, the Company has taken relevant remedial actions to address the Company’s internal control deficiency regarding confirmation of the identity of the person making an order.
4 Goods Exchange Promises possibly made before 2019 (“ Modification 4 ”)	<ul style="list-style-type: none"> • The nature of this modification is the same as Modification 2 above. • The Company further submits that this is the only modification made to figures in FY2019 and if certain sales return/exchange in 2019 actually related to Goods Exchange Promises made in prior year, that would only result in re-allocation of related sales amongst 2019 and prior year.

Based on the above, the Board is of the view that the Company:

- (a) has published all outstanding financial results and the outstanding 2019 Annual Report and 2020 Interim Report and was able to re-comply with the relevant Listing Rules requirements accordingly; and
- (b) has properly addressed the audit modifications made by RSM Hong Kong in their auditors’ report for the 2019 Financial Statements.

UPDATE ON INDEPENDENT INTERNAL CONTROL REVIEW

As disclosed in the Company's announcement dated 25 August 2020, the Board resolved to appoint SHINEWING Risk Services Limited ("**Shinewing**") as its internal control consultant to conduct a review of the internal control systems and procedures of the Group in response to the concerns identified in the Forensic Review referred to in the Announcement (the "**Internal Control Review**"), and to make recommendations accordingly.

A report on the Internal Control Review was issued on 30 November 2020. The key findings of the Internal Control Review have been disclosed in the Company's announcement dated 2 December 2020.

The Board is pleased to announce that during the Internal Control Review, Shinewing has performed testing on the enhanced internal control processes, and no irregularities were noted.

As the internal control deficiencies identified in the Internal Control Review have been fully remediated, Shinewing is of the view that the Company has put in place adequate internal control and procedures to address the concerns identified in the Forensic Review, the Additional Forensic Review and by the Auditors, and meet its obligations under the Listing Rules.

UPDATE ON INFORMING THE MARKET OF ALL MATERIAL INFORMATION OF THE COMPANY

Announcements of material information

Since the trading in the Shares on the Stock Exchange has been suspended, the Company has duly informed the market of all material information of the Company by making the following announcements:

Date	Announcement title
<i>Announcements on the investigation on the audit findings raised by Deloitte</i>	
2 Dec 2020	Inside Information – Key findings of the Internal Control Review
30 Nov 2020	Inside Information – Auditors' Letter to the Audit Committee
20 Nov 2020	Inside Information – Key Findings of Additional Forensic Review
23 Sep 2020	Quarterly Update on Suspension of Trading and Further Delay in Despatch of Circular

Date	Announcement title
27 Jul 2020	Inside Information – Auditors’ Comments on Forensic Review Findings and Audit Committee’s Response to Auditors’ Comments
21 Jul 2020	Inside Information – Key Findings of Forensic Review
24 Jun 2020	Quarterly Update on Suspension of Trading
29 Apr 2020	Updates on Investigation, Delay in Publication of the Audited 2019 Annual Results and Delay in Despatch of the 2019 Annual Report and Suspension of Trading
24 Mar 2020	Inside Information – Unaudited Annual Results Announcement for the Year Ended 31 December 2019

Resumption conditions of trading in the shares of the Company

14 Aug 2020	Additional Resumption Guidance
21 May 2020	Resumption Guidance and Adjournment of the Annual General Meeting

Important appointments

25 Aug 2020	Appointment of Auditors – Appointment of Internal Control Consultant and Further Delay in Despatch of Circular
14 Aug 2020	Appointment of Auditors
3 Aug 2020	Resignation of Auditors

Date	Announcement title
<i>Other material information regarding the business and operation of the Company</i>	
14 Dec 2020	Notice of Annual General Meeting
14 Dec 2020	Circular – (i) Proposed Re-Election of Directors; (ii) Proposed Granting of General Mandates to Repurchase Shares and to Issue Shares; and (iii) Notice of Annual General Meeting
11 Dec 2020	Interim Report 2020
11 Dec 2020	Annual Report 2019
7 Dec 2020	Supplemental Announcement in Relation to the Audited Annual Results Announcement for the Year Ended 31 December 2019
2 Dec 2020	Interim Results Announcement for the Six Months Ended 30 June 2020
30 Nov 2020	Supplemental Announcement in Relation to the Audited Annual Results Announcement for the Year Ended 31 December 2019
30 Nov 2020	Audited Annual Results Announcement for the Year Ended 31 December 2019
23 Oct 2020	Announcement – Material Change to The Terms of Continuing Connected Transactions
23 Jul 2020	Continuing Connected Transactions and Connected Transaction (I) Supplemental Agreements to Certain Existing CCT Agreements (II) 2020 CCT Agreements And (III) Transfer of Spa Business Agreement

STATUS OF SATISFACTION OF RESUMPTION CONDITIONS

Based on the above, the Company is of the view that it has fulfilled all the Resumption Conditions as disclosed in the Resumption Guidance Announcements. Accordingly, on 7 December 2020, the Company submitted a written submission to the Stock Exchange and requested for the resumption of trading of the Shares on the Stock Exchange pursuant to paragraph 38 of the guidance letter HKEX-GL95-18 (the “**Resumption Request**”). As of the date of this announcement, the Stock Exchange is in the process of reviewing the Resumption Request, and the Company shall inform the shareholders and potential investors of the Company once the trading of the Shares is resumed.

CONTINUED SUSPENSION OF TRADING

Trading in the Shares on the Stock Exchange has been suspended at the request of the Company since 9:00 a.m. on 25 March 2020 and will remain suspended until further notice. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
Natural Beauty Bio-Technology Limited
LEI Chien
Chairperson

Hong Kong, 24 December 2020

As at the date of this announcement, the Board comprises Dr. Lei Chien and Mr. Pan Yi-Fan as executive directors; Ms. Lu Yu-Min, Ms. Lin Shu-Hua and Mr. Chen Shou-Huang as non-executive directors; and Mr. Chen Ruey-Long, Mr. Lu Chi-Chant and Mr. Yang Shih-Chien as independent non-executive directors.