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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)**

**FULFILMENT OF RESUMPTION CONDITIONS  
AND  
RESUMPTION OF TRADING**

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 Conditions 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 of the Company; (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 (the "**Additional Forensic Review Results Announcement**"); (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 (the "**Internal Control Review Results Announcement**"); (xi) the annual report of the Company for the year ended 31 December 2019; (xii) the interim report of the Company for the six months ended 30 June 2020 and (xiii) the announcement of the Company dated 24 December 2020 in relation to quarterly update on suspension of trading of the Shares. Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Additional Forensic Review Results Announcement.

The Board is pleased to inform the Shareholders that the Company has fulfilled all the Resumption Conditions imposed by the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for the resumption of trading with effect from 9:00 a.m. on 11 February 2021.

Details of the fulfilment of the Resumption Conditions are set out below.

## **BACKGROUND**

As disclosed in the Company’s announcement dated 24 March 2020, the Company had to delay the publication of the 2019 Financial Statements due to, inter alia, certain concerns raised by the Company’s previous Auditors, Deloitte, in relation to (i) the increase of sales to certain individual distributors close to the year end of 2019; (ii) how certain individual distributors and customers settled their payments to the Group (i.e. the use of multiple accounts, credit cards and/or debit cards for settlement and other related issues); and (iii) certain sales not appeared to be supported by third party evidence of delivery (collectively, the “**Issues**”). At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 25 March 2020.

As disclosed in the Resumption Conditions Announcements, the Stock Exchange imposed the following Resumption Conditions:

- (a) to conduct an appropriate investigation into the Issues raised by Deloitte, announce the findings and take appropriate remedial actions;
- (b) to publish all outstanding financial results and address any audit modifications;
- (c) inform the market of all material information of the Company; and
- (d) 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 and ensure the Company to comply with the Listing Rules.

## **DETAILS OF THE ISSUES AND THE RELEVANT REMEDIAL ACTIONS**

As disclosed in the Company’s announcement dated 21 July 2020 (the “**Forensic Review Results Announcement**”), in order to address the Issues raised by the previous Auditors, the Audit Committee engaged PricewaterhouseCoopers Management Consulting (Shanghai) Limited as Forensic Accountant to conduct Forensic Review on the Issues relating to certain Group’s wholly-owned subsidiaries in mainland China (the “**Subject Group Companies**”). The key findings of the Forensic Review have been disclosed in the Forensic Review Results Announcement.

## **Issue 1: Sales spike relating to four individual distributors**

During the previous Auditors' audit process for the Group's 2019 Financial Statements, the previous Auditors noted that certain transactions of the Subject Group Companies involved sales to four individual distributors with total revenue of approximately RMB42.4 million in 2019, representing an increase of 123% compared with the prior year, of which approximately RMB17.5 million in sales were made close to the end of 2019.

### ***Company's response and remedial actions***

As disclosed in the Forensic Review Results Announcement, the Company is of the view that the main reasons contributed to the sales spike relating to the four individual distributors are (i) they were strongly incentivised to place more orders in December 2019 given the deep discount; and (ii) some of the products were out of stock, and they were given the option to exchange some of the goods later in 2020.

The Forensic Review reveals concerns over individual sales personnel offering various rights for customers to exchange goods. The Board has taken remedial actions to address these concerns. For details, please refer to the section headed "Remedial Actions" in the Forensic Review Results Announcement and the Internal Control Review Results Announcement.

## **Issue 2: Concerns over how certain individual distributors and customers settled their payments to the Subject Group Companies**

During the previous Auditors' audit process for the Group's 2019 Financial Statements, the previous Auditors noted that some transactions between the Subject Group Companies and their customers appeared to be settled by their employees and certain individual distributors used multiple bank accounts/credit cards for settlement.

### ***Company's response and remedial actions***

As disclosed in the forensic review results, the Company is of the view that the sales were genuinely made by the relevant customers, and the employees were merely making the payment on behalf of the customers for convenience.

Nevertheless, the Board has taken remedial actions to forbid employees from keeping customers' credit cards or making payments on behalf of the customers. For details, please refer to the section headed "Remedial Actions" in the Forensic Review Results Announcement and the Internal Control Review Results Announcement.

### **Issue 3: Some sales did not appear to be supported by third party evidence of delivery**

During the previous Auditors' audit process for the Group's 2019 Financial Statements, the previous Auditors noted that some sales transactions did not appear to be supported by third party evidence of delivery.

#### ***Company's response and remedial actions***

As disclosed in the Forensic Review Results Announcement, the findings of the Forensic Review demonstrate that 57.5% of the Company's annual sales were supported by the tracking numbers either by way of trucks with tracking numbers or express delivery with tracking numbers, while the remaining transactions were supported by other evidence such as Xinyitai's logistics tracking sheets and QQ conversations with Xinyitai's staff, etc. The customers whom the Forensic Accountant interviewed confirmed that all the goods have been received, and this can make up for the lack of support from goods receipt notes (the "GRNs").

In order to strengthen the logistics management, the Company has taken remedial actions to ensure that all shipments are supported by third party delivery evidence including engaging a new logistics company. For details, please refer to the section headed "Remedial Actions" in the Forensic Review Results Announcement and the Internal Control Review Results Announcement.

### **FULFILMENT OF ALL RESUMPTION CONDITIONS**

The Board is pleased to announce that as at the date of this announcement, the Company has fulfilled all the Resumption Conditions, details of which are set out below.

#### **Resumption Condition 1 – to conduct an appropriate investigation into the Issues raised by Deloitte, announce the findings and take appropriate remedial actions**

##### ***Background***

As disclosed above and in the Company's announcement dated 24 March 2020, the Company's previous Auditors, Deloitte, raised certain Issues in respect of the sales made by the Group. In response to the enquiries, the Audit Committee engaged the Forensic Accountant to conduct the Forensic Review.

On 6 July 2020, the Forensic Accountant prepared a draft report (the "**6 July Draft Forensic Review Report**") relating to matters in 2019, the key findings of which have been disclosed in the Forensic Review Results Announcement. There is no material difference between the 6 July Draft Forensic Review Report and the final Forensic Review report.

Upon review of the 6 July Draft Forensic Review Report, on 7 July 2020, the Audit Committee instructed the Forensic Accountant to conduct additional procedures to investigate into certain matters for the period from 1 January 2016 and 31 December 2018 (the “**Additional Forensic Review**”), the key findings of which have been disclosed in the Additional Forensic Review Results Announcement.

On 22 July 2020, the Audit Committee received a letter from Deloitte setting out their comments on the draft Forensic Review report and their recommendations (the “**AC Letter**”), which included, amongst others, requesting the Company to further expand the scope of the Forensic Review. On 27 July 2020, the Audit Committee wrote to Deloitte in response to their comments and recommendations contained in the AC Letter (“**AC Reply**”).

On 31 July 2020, the Company received a resignation letter (the “**Resignation Letter**”) from Deloitte, pursuant to which Deloitte resigned as auditors of the Company with effect from 31 July 2020.

On 25 August 2020, the Board appointed RSM Hong Kong (“**RSM**”) as the Auditors of the Company to fill the casual vacancy following the resignation of Deloitte, and to hold office until the conclusion of the next annual general meeting of the Company.

### ***Findings of the Forensic Review***

As mentioned above, the previous Auditors, Deloitte, raised certain Issues on the sales made by the Group for the financial year ended 31 December 2019 (“**FY2019**”), with a view to identifying the root causes of the Issues, the Company engaged the Forensic Accountant to conduct the Forensic Review, the key findings of which have been disclosed in the Forensic Review Results Announcement. There is no material difference between the 6 July Draft Forensic Review Report and the final Forensic Review report.

As disclosed in the Company’s announcement dated 27 July 2020, having reviewed the 6 July Draft Forensic Review Report, Deloitte was of the view that the Forensic Review had not been satisfactorily completed, and accordingly, the Company did not have a proper basis to finalise its 2019 Financial Statements for the purpose of their audit. Deloitte also raised certain concerns on sales made between 2016 and 2018.

The Company was of the view that the Issues raised by Deloitte have been appropriately investigated in the course of the Forensic Review and the Additional Forensic Review for reasons including the following: -

- (a) during the Forensic Review process, the Company cooperated fully with the Forensic Accountant in all aspects and offered complete, authentic and unreserved information and support;

- (b) the expanded scope for the Forensic Review, which had been endorsed and agreed by Deloitte, was reasonable and sufficient;
- (c) despite the inevitable restrictions and limitations owing to objective factors, the Forensic Accountant had comprehensively investigated into the Issues raised by Deloitte to the extent practicable; and
- (d) it was not in the best interest of the Company and the Shareholders as a whole to further expand the scope of the Forensic Review.

### ***Findings of Additional Forensic Review***

As disclosed in the Company's announcement dated 21 July 2020, the Forensic Accountant noted several documents which seemed to suggest that the Subject Group Companies might have engaged in channel stuffing between 2016 and 2018. Accordingly, the Audit Committee separately commissioned the Forensic Accountant to conduct the Additional Forensic Review, the key findings of which have been disclosed in the Additional Forensic Review Results Announcement.

As disclosed in the Additional Forensic Review Results Announcement, the Audit Committee noted certain findings of the Additional Forensic Review raised a serious concern of the existence of channel stuffing during the period from 1 January 2016 to 31 December 2018 (the "**Additional Review Period**"). The Audit Committee would like to know whether there were legitimate commercial reasons for such sales practice but noted that the Forensic Accountant was unable to interview the previous management for an explanation. Regardless, the Audit Committee considers the sales practices during the Additional Review Period were generally unsatisfactory and recommended the Company to take active steps to ensure that the Company would not engage in channel stuffing. The Company agreed with the Audit Committee's assessment.

### ***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. For details, please refer to the section headed "Remedial Actions" in the Forensic Review Results Announcement.

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.

**Resumption Condition 2 – 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 and ensure the Company to comply with the Listing Rules**

***Internal controls and procedures***

To assist the Company in fulfilling the additional resumption condition, the Company engaged 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 and the Additional Forensic Review (the “**Internal Control Review**”).

Although the Stock Exchange only required the Company to address the concerns identified in the Forensic Review, the Audit Committee considered that it would be prudent to also address the internal control concerns that were identified in the Additional Forensic Review.

As disclosed in the Company announcements dated 21 July 2020 and 20 November 2020, the key findings of the Forensic Review and the Additional Forensic Review pertain to the following subject matters (the “**Subject Matters**”):

<b>Subject Matter</b>	<b>Key findings</b>
Subject Matter 1	Sales spike relating to four individual distributors and arrangement on goods exchange quota granted to distributors
Subject Matter 2	Concerns over how certain individual distributors and customers settled their payments by employees or multiple payers
Subject Matter 3	Some sales did not appear to be supported by third party evidence of delivery
Subject Matter 4	Fictitious sales allegations
Subject Matter 5	Accounts receivables of the major customers as of 31 May 2020
Subject Matter 6	Revenue recognition appears to be inconsistent with the Company’s accounting policy
Subject Matter 7	Allegation of channel stuffing prior to 2019

The Internal Control Review mainly focused on the Company's internal control pertaining to the above Subject Matters and consisted of two phases:

- (a) the objectives of phase one of the Internal Control Review were to (i) independently review the internal control system as established by the Company, its adequacy and integrity vis-à-vis the objectives served; (ii) make appropriate recommendations; and (iii) enable to Company to enhance the internal control in respect of the concerns identified in the Forensic Review and Additional Forensic Review;
- (b) the main objective of phase two of the Internal Control Review was to assess the remediation status of the deficiencies identified during the phase one of the Internal Control Review, the concerns identified in the Forensic Review and Additional Forensic Review.

Set forth below is an overview the results of the Internal Control Review and the remediation status of the internal control deficiencies as at 30 November 2020:

<b>Selected Process</b>	<b>Relevant Subject Matters</b>	<b>Remediation status as at 30 November 2020</b>
General	–	Remediated
Sales proceeds collection	Subject Matter 2	Remediated
Accounts receivable management	Subject Matter 5	Remediated
Customer and sale order management	Subject Matter 1 & Subject Matter 7	Remediated
Management of franchise stores	Subject Matter 4	Remediated
Goods delivery	Subject Matter 3 & Subject Matter 7	Remediated
Revenue recognition	Subject Matter 6 & Subject Matter 7	Remediated



Based on the above, it could be concluded that:

- (a) the Company has taken appropriate remedial actions to address the concerns identified by the Auditors, in the Forensic Review and the Additional Forensic Review;
- (b) the Internal Control Review has comprehensively assessed the internal control concerns as identified by the Auditors, in the Forensic Review and the Additional Forensic Review;
- (c) having considered the results of the Internal Control Review, the Audit Committee and the Board are of the view, and Shinewing concurs that the remedial measures implemented by the Company are sufficient and adequate to address the concerns identified by the Auditors, in the Forensic Review and the Additional Forensic Review, and meet its obligations under the Listing Rules.

**Resumption Condition 3 – to publish all outstanding financial results and address any audit modifications**

***Publication of financial results***

Given the background described above and the reasons stated in the Company’s announcement dated 24 March 2020 (the “**24 March Announcement**”), the Company was unable to make an announcement of its 2019 preliminary results based on the 2019 Financial Statements which have 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 Company announced the following results and reports on the following dates: -

<b>Results/reports</b>	<b>Date of publication</b>
Audited annual results for FY 2019	30 November 2020
Interim results for the six months ended 30 June 2020	2 December 2020
Annual Report for FY 2019	11 December 2020
Interim report for the six months ended 30 June 2020	11 December 2020

## ***Audit modification***

RSM Hong Kong has given a modified opinion in respect of the 2019 Financial Statements: -

<b>Modifications</b>	<b>Response</b>
1. Opening balances and comparative figures – Revenue recognition method possibly deviated from the Group’s accounting policies (“ <b>Modification 1</b> ”)	<ul style="list-style-type: none"><li>• 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.</li><li>• That being said, the Company has taken relevant remedial actions, including enhancing internal control measures, to make sure that such incorrect revenue recognition will not happen again. For details, please refer to the section headed “Enhanced Internal Control Measures” in the Internal Control Review Results Announcements.</li></ul>
2. Opening balances and comparative figures – Goods Exchange Promises possibly made before 2018 (“ <b>Modification 2</b> ”)	<ul style="list-style-type: none"><li>• 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.</li><li>• 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. For details, please refer to the section headed “Enhanced Internal Control Measures” in the Internal Control Review Results Announcements.</li></ul>

<b>Modifications</b>	<b>Response</b>
<p>3. Opening balances and comparative figures – Accounting treatment of a disputed sales contract (“<b>Modification 3</b>”)</p>	<ul style="list-style-type: none"> <li>• This disputed sales contract was a one-off event.</li> <li>• 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. For details, please refer to the section headed “Enhanced Internal Control Measures” in the Internal Control Review Results Announcements.</li> </ul>
<p>4. Goods Exchange Promises possibly made before 2019 (“<b>Modification 4</b>”)</p>	<ul style="list-style-type: none"> <li>• The nature of this modification is the same as Modification 2 above.</li> <li>• 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.</li> </ul>

Based on the above, 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;
- (b) has properly addressed the audit modifications made by RSM Hong Kong in their auditors’ report for the 2019 Financial Statements.

As at the date of this announcement, the Auditors have not yet completed the audit of the Company’s consolidated financial statements for the year ended 31 December 2020 (the “**2020 Financial Statements**”). After discussion with Auditors, the management of the Company expects that the above audit modifications will not be carried forward to the 2020 Financial Statements, subject to completion of the audit work and the audit results. However, since the 2019 Financial Statements will form the basis for the comparative figures (the “**Comparative Figures**”) in the 2020 Financial Statements, the Auditors will give a modified opinion in respect of the Comparative Figures in the 2020 Financial Statements due to Modification 4.

## **Resumption Condition 4 – inform the market of all material information of the Company**

### **Announcements of material information**

The Company has duly informed the market of all material information of the Company by making the following announcements:

<b>Date</b>	<b>Announcement title</b>
<i>Announcements on the investigation on the audit findings raised by Deloitte</i>	
24 Dec 2020	Quarterly Update on Suspension of Trading
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
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

<b>Date</b>	<b>Announcement title</b>
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*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

*Other material information regarding the business and operation of the Company*

11 Dec 2020	2020 Interim Report
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**

The Company has satisfied all the Resumption Conditions.

## **RESUMPTION OF TRADING**

At the request of the Company, trading in Shares was suspended with effect from 9:00 a.m. on Monday, 25 March 2020. Application has been made to the Stock Exchange for the resumption of trading in Shares with effect from 9:00 a.m. on 11 February 2021.

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

Hong Kong, 10 February 2021

*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.*