

Chairman's Statement



Chairman

The listing of Natural Beauty Bio-Technology Limited (the "Company") on The Stock Exchange of Hong Kong Limited on 28 March 2002 is a milestone on its path towards international market. On behalf of the Board of Directors, I am pleased to present the first annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2001.

REVIEW OF OPERATIONS

The Group is entrusted with the belief of "Nature is the source of Beauty", and emphasizes on "Research, Education, Service and Marketing" to spearhead in the beauty and skin care industry.

As at 31 December 2001, the Group has developed more than 700 "NB[®]" branded skin care, beauty and aromatherapeutic products which were distributed through a network of over 1,900 sales points in the Greater China region. The Group's Natural Beauty SPAs and NB Salon SPAs also provide an array of tailor-made body treatments and SPA services using high quality essential oils and special equipment. According to the marketing survey conducted by Dawson Integrated Marketing Communications Co., Ltd. for the Group in September 2001, over 80% of the interviewees were aware of the brand name "NB[®]" and considered that the products under the brand name of "NB[®]" were suitable for oriental women. Wide geographical coverage, high market penetration rate and well-recognised brand name are the key success elements of the Group.

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REVIEW OF OPERATIONS (continued)

Year 2001 was very critical to the Group. During the year, the Group underwent a restructuring of its distribution network in the PRC to establish twenty-five non-wholly owned subsidiaries in certain major cities, by partnering with the then regional distributors who previously were responsible for distributing the Group's products to the franchisees. Through these newly established subsidiaries, the Group is able to set up its own management offices, training centres and Natural Beauty SPAs in the regions aiming to strengthen the operation management, business development and beautician training. Despite the repurchase of inventory from the then twenty-five distributors as part of their capital contributed to the respective subsidiaries in the restructuring had a short-term impact on the profit of the Group, I considered this as a worthy strategic movement that would definitely benefit the Group in the long run and facilitate more efficient management.

The Group commenced its official operation of Natural Beauty SPAs in 2001. The Group believed that the business of Natural Beauty SPAs would not only attract more customers with higher purchasing power and enhance the Group's image in the market but also improve its turnover and profit, in particular as to service income. For the year ended 31 December 2001, turnover and net profit of the Group reached HK\$257,426,000 and HK\$71,043,000, representing 25.26% and 1.30% growth respectively over 2000. With the persistent economic downturn in Taiwan, the Group continued to exercise tight cost controls and thus its profit after tax for Taiwan operation still increased by 0.28% in New Taiwan dollars reporting. Due to the depreciation of New Taiwan dollars, net profit from the Group's operation in Taiwan nevertheless fell about 7.21% in terms of Hong Kong dollars. In spite of the distribution network restructuring, the Group's net profit for the year ended 31 December 2001 in the PRC segment surged 8.26%.

BUSINESS OUTLOOK

2002 will be a challenging year. Although more international brands will enter into the beauty and skin care products market in the PRC and Taiwan following the accession of the PRC and Taiwan to the World Trade Organization, and competition in this industry will be more intense, I am confident with the prospect of the Group.

The Group considers that the majority of international cosmetics companies only focus on achieving sales volume target of their products. These companies seldom provide professional pre-sale and after-sale services to their customers. Imported skin care products and cosmetics may not be suitable for the skin of Asian people. Nobody would understand the nature of skin type for Chinese women better than themselves. With the ability of the Group in research and development, manufacturing and training, skin analysis, sales and caring support, all of the Group's skin care and beauty products were manufactured to suit the specific features of Chinese women. The efforts devoted by the Group during the past few years has made it successful in establishing a well-recognized brand name and reputation in Greater China and the Chinese community. The Group believes that, with the continuous improvement in the economy in the PRC, the living standard of the people in the region will be lifted. Demand for skin care and beauty products and services by the people in the PRC would continue to elevate in a rapid pace. This will in turn provide unlimited opportunities for the Group's development in the PRC. During the last ten years, the Group has established in the PRC a sales network of more than 1,200 beauty centres and dedicated counters. Thus, the Group does not fear, and is even optimistic about competing with other international brands after the accession of China into the World Trade Organization.



Chairman's Statement

BUSINESS OUTLOOK (continued)

For the Taiwan market, the accession to the World Trade Organization did not make a great difference, as the tariff for cosmetics has been at the level of that imposed by the World Trade Organization. While the competition in the cosmetics industry in Taiwan was very keen for the past ten years, the Group's results for operation in Taiwan improved continuously. At that time, the promotion and advertising campaigns for the marketing of cosmetics conducted by more than 1,000 agents of imported cosmetics caused many consumers frequently switch the brands and apply "multi-national" products on their skin. However such mis-use and mis-match of products led to skin problems which could only be solved by professional brands such as "NB®". With its tailor-made products and treatments prescribed by professional cosmetics consultants, the Group has cured the problematic skin effectively. This can explain why "NB®" is still leading whilst the other 1,000 local brands cease to exist from time to time. Although the Taiwan cosmetics market has almost been saturated after its 20 years of development, the Group still operates about 700 beauty centres in the region. The Group will further strengthen its corporate management, add new types of products and services and improve service quality in order to consolidate and expand its market share.

For Hong Kong, the Group will leverage on its unique position and competition advantages in the economy as the bridge between Taiwan and the PRC and the stepping stone to the international market. The Group's first Natural Beauty SPA in Hong Kong commenced operation in January 2002. It is expected that more Natural Beauty SPAs, retail outlets and dedicated counters will be opened during the year.

The Group has commenced its development in the international market for more than ten years. More efforts will be devoted to explore overseas business. It is planned that more NB Salon SPAs and retail outlets, either self-owned or franchised, will be set up in Malaysia, Singapore, United States and Australia. These NB Salon SPAs and retail outlets will be consolidated with the franchised beauty centres in the same regions for the purpose of strengthening training activities. The Group will also establish branches in these regions to enlarge its franchise program so as to further expand the Group's sales network, which will in turn improve its turnover and profit.

The Group will also select the outstanding beauticians trained in the PRC during the past ten years and will assist them to become franchisees or to operate its NB Salon SPAs or retail outlets on a contractual management basis. During the first quarter of 2002, the Group has opened about 200 additional beauty centres.

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BUSINESS OUTLOOK (continued)

To conclude, through the expansion of its existing sales network, improvement of production facilities, distribution of new beauty and health-oriented products and services through chain store sales, enhancing the existing POS system, set up of customer relationship management platform, strengthening marketing and promotion, and international strategic alliances, the Group can achieve the highest effectiveness of using “NB®” trademark, expand its market share and maximize return for the shareholders. Plans for achieving the aforesaid objectives include the research and development of health care products, organic food, underwear, pure essential oils, hair care products, and the licensing of “NB®” for the manufacture of wallets, accessories or toiletries.

It is apparent that if the Group only keeps an eye on Greater China, it cannot be regarded as a real global player. Therefore, the Group will better utilize part of the proceeds from listing in Hong Kong to enter into the international market, and establish “Natural Beauty” as a genuine international brand.

APPRECIATION

I would like to express my sincere appreciation and thanks to the fellow shareholders and customers for their support and to the fellow directors and all staff of the Group for their contributions towards the successful performance of the Group. Leading by our elite in business development, I am sure that the Group will succeed to achieve breakthrough in its results for the years to come.

